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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Year Ended June 30, 2021
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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

Year Ended June 30, 2021

Contents

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Report of Independent Auditors

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

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries (the "Company"), a component unit of the University of Florida, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Company's consolidated basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of the Company as of June 30, 2021, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 84, *Fiduciary Activities*

As discussed in Note 2 to the consolidated basic financial statements, the Company changed its method for reporting fiduciary activities as a result of the adoption of the Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, effective July 1, 2020. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis (unaudited) on pages 4 through 22, the schedule of STHC's proportionate share of the net pension (asset) liability (unaudited) on page 93, the schedule of employer contributions (unaudited) on page 95, the schedule of changes in the net pension (asset) liability (unaudited) on page 96, the schedule of plan contributions (unaudited) on page 97 and the schedule of plan investment returns (unaudited) on page 98 be presented 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 which considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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 opinions on the financial statements that collectively comprise the Company's consolidated basic financial statements. The supplemental consolidating information on pages 99 through 101 and the supplementary consolidated statement of cash flows for the UF Health Central Florida ("UFHCF") obligated group on page 102 are presented for purposes of additional analysis and are not a required part of the consolidated basic financial statements.

The supplemental consolidating information and the supplementary statement of cash flows for the UFHCF obligated group are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. Such 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. In our opinion, the supplemental consolidating information and the supplementary statement of cash flows for the UFHCF obligated group are fairly stated, in all material respects, in relation to the consolidated basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 21, 2021 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst & Young LLP

September 21, 2021

Introduction

This section of the Shands Teaching Hospital and Clinics, Inc. and Subsidiaries' annual financial report presents the analysis of financial performance as of and for the year ended June 30, 2021, with comparative information as of and for the year ended June 30, 2020. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements and related note disclosures.

Organization

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

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

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

UF Health Shands

- **STHC** operates the following:

  - **UF Health Shands Hospital** is part of a major academic medical center located in Gainesville, Florida, and is licensed to operate a 1,014-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.

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

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

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

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

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

UF Health Central Florida

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

- **Leesburg Regional Medical Center, Inc. d/b/a UF Health Leesburg Hospital ("UFHL")** is a 330-bed acute care hospital located in Leesburg, Florida. 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 fundraising organization located in Leesburg, coordinating fundraising activities for UFHL and its affiliates. UFHL is the sole corporate member of UFHL Foundation.

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

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

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

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

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

Shands' Partially-Owned, Unconsolidated Affiliates

- STHC has a 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. Starke HMA, LLC and Live Oak HMA, LLC are in the process of winding down their business activities following the sale of the two rural community hospitals and will eventually be dissolved.

- STHC has a 40% minority interest in **Lake Shore HMA, LLC,** which previously leased 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 previously managed 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 terminated the hospital lease, released STHC from obligations under the lease, and transferred possession of certain hospital assets to the Lake Shore Authority effective September 30, 2020. Lake Shore HMA, LLC is in the process of winding down its business activities following the termination of the hospital lease and will eventually be dissolved.

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

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

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

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

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

- UFHCF has an 11.1% minority 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%.

Required Financial Statements

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

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

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

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

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 affiliates 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, 2019. 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, to reflect the acquisition of UFHCF, and is summarized as follows:

(in thousands of dollars)

Net position at June 30, 2019, as previously reported	$ 1,186,398
Acquisition of UFHCF	396,079
Net position at July 1, 2019, as restated	$ 1,582,477

Statements of Net Position

The consolidated basic statements of net position present the financial position of Shands as of June 30, 2021 and 2020, 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, 2021 and 2020:

(in thousands of dollars)

	2021	2020
Cash and cash equivalents	$ 186,287	$ 233,539
Short-term investments	209,710	241,079
Other current assets	466,400	400,386
Capital assets, net	1,370,271	1,379,065
Other assets	1,372,716	1,113,970
Total assets	3,605,384	3,368,039
Deferred outflows of resources	105,139	119,329
Current liabilities	586,989	567,568
Long-term liabilities	1,188,318	1,192,138
Total liabilities	1,775,307	1,759,706
Deferred inflows of resources	49,697	73,144
Net position:		
Net investment in capital assets	311,116	334,125
Restricted:		
Nonexpendable	986	626
Expendable	4,248	3,939
Unrestricted	1,569,169	1,315,828
Total net position	$ 1,885,519	$ 1,654,518

Note: Shands reclassified certain amounts in its audited consolidated basic statement of net position as of June 30, 2020, to conform to the presentation in the consolidated basic statement of net position as of June 30, 2021.

Assets and Deferred Outflows of Resources

Cash and cash equivalents decreased by $47.3 million, or 20.2%. Significant sources of cash included $172.8 million in cash provided by operating activities, $37.8 million in reimbursement from a trustee-held project fund, $11.6 million of federal grants and state appropriations received, including the receipt of $4.5 million of CARES Act Provider Relief Funds (see "COVID-19 Pandemic"), $7.0 million in donations and pledge receipts, $6.3 million in distributions from unconsolidated affiliates, $5.6 million in payments received on notes receivable, and $4.6 million in collateral received on interest rate swaps, net. Significant cash uses included $123.3 million in purchases (net of sales) of short-term investments, assets whose use is limited, and assets whose use is restricted, $106.5 million in purchases of capital assets, and $65.8 million in principal and interest payments on outstanding debt and capital lease obligations. Short-term investments decreased by $31.4 million, or 13.0%, due to the transfer of short-term investments to operating cash balances and assets whose use is limited.

Other current assets, including net patient accounts receivable, inventories, and prepaid expenses and other current assets, increased by $66.0 million, or 16.5%. Patient accounts receivable, net increased by $45.0 million due to increased patient revenues and the timing of the receipt of payments on patient accounts. Inventory balances increased by $1.9 million. Prepaid expenses and other current assets increased by $19.1 million primarily due to the timing of the receipt of State of Florida graduate medical education funds, as well as the timing of payments made on prepaid contracts and payments received on non-patient accounts receivable.

Capital assets, net decreased by $8.8 million, or 0.6%, reflecting depreciation and amortization expense of $112.9 million, the sale of property with a net book value of $1.3 million, and a decrease in retainage and construction payables of $1.0 million, largely offset by purchases of capital assets of $106.5 million.

Other assets increased by $258.7 million, or 23.2%, due to a $332.0 million increase in assets whose use is limited, partially offset by a $44.3 million decrease in assets whose use is restricted and a $29.0 million decrease in other assets. The increase in assets whose use is limited is primarily due to the net investment of $157.5 million in STHC's pooled investment program and related investment gains in the program and other direct investments. The decrease in assets whose use is restricted is primarily due to $37.8 million in reimbursement from a trustee-held project fund and the return of $4.6 million of collateral posted on interest rate swap contracts. The decrease in other assets is primarily due to a $13.6 million decrease in investment in unconsolidated affiliates, a $9.2 million decrease in the pension asset associated with the defined benefit ("DB") pension plan, a $3.8 million decrease in amounts due from UF, and a $1.5 million decrease in amounts due from Shands' self-insured employee health plan. The decrease in investment in unconsolidated affiliates is due to a $9.1 million impairment loss recognized on UFHL's investment in LMI and UFHCF's investment in LeeSar, based on a recent asset appraisal and other factors, and $6.3 million in distributions from unconsolidated affiliates, partially offset by $1.9 million in income earned from unconsolidated affiliates.

Deferred outflows of resources decreased by $14.2 million, or 11.9%, primarily due to a $13.8 million decrease in the accumulated decrease in fair value of hedging derivatives. The change in the accumulated decrease in fair value of hedging derivatives is due to the net change in the fair value of certain interest rate swap contracts used as a hedge against changes in interest rates on certain variable rate debt instruments.

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities increased by $19.4 million, or 3.4%, due to a $40.3 million increase in accounts payable and accrued expenses, a $23.6 million increase in estimated third-party payor settlements, and a $17.2 million increase in accrued salaries and leave payable, partially offset by a $62.3 million decrease in Medicare advances, current portion. The increase in accounts payable and accrued expenses is primarily due to a $21.4 million increase in accounts payable due to the timing of the vendor invoice and payment cycles, including delayed payments to vendors resulting from UFHCF's cybersecurity event (See "Cybersecurity Event"), a $14.1 million increase in deferred social security taxes payable, deferred until fiscal year 2022, as permitted under the CARES Act, and a $5.5 million increase in amounts payable to FCPA. The increase in accrued salaries and leave payable is primarily due to the timing of the payroll payment cycle. The increase in estimated third-party payor settlements is due to settlement payment activity to/from certain third-party government payors and changes in settlement estimates. The decrease in Medicare advances, current portion is due to repayment of Medicare advances of $30.7 million, partially offset by changes in the repayment terms of Medicare advances received due to the ongoing impact of COVID-19 (see "COVID-19 Pandemic").

Long-term liabilities decreased by $3.8 million, or 0.3%, due to a $24.4 million decrease in long-term debt, less current portion and a $10.3 million decrease in other liabilities, partially offset by a $31.7 million increase in Medicare advances, less current portion. The decrease in long-term debt, less current portion, is primarily due to principal payments made on outstanding debt of $18.4 million and amortization of bond premium of $5.2 million. The decrease in other liabilities is primarily due to a $13.8 million change in the fair value of interest rate swaps in a liability position and used as a hedge against changes in interest rates on certain variable rate debt instruments and a $2.6 million decrease in professional liability claims reserve, partially offset by a $6.0 million increase in social security taxes payable, deferred until fiscal years 2022 and 2023, as permitted under the CARES Act. The increase in Medicare advances, less current portion is due to changes in the timing of the repayment of Medicare advances.

Deferred inflows of resources decreased by $23.4 million, or 32.1%, primarily due to a decrease in deferred inflows on pension of $23.2 million due to the impact of changes in actuarial assumptions ($15.9 million), the net differences in projected and actual earnings on plan investments ($6.6 million), and the differences in projected and actual actuarial experience ($0.7 million).

Total net position increased by $231.0 million, or 14.0%, primarily due to an excess of revenues over expenses of $228.9 million and capital contributions of $1.4 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, 2021 and 2020:

(in thousands of dollars)

	2021	2020
Net patient service revenue	$ 2,188,083	$ 1,963,615
Other operating revenue	47,190	44,188
Total operating revenues	2,235,273	2,007,803
Operating expenses	2,150,515	2,006,553
Operating income	84,758	1,250
Nonoperating revenues, net	144,160	65,716
Excess of revenues over expenses	228,918	66,966
Other changes in net position:		
Capital contributions	1,415	7,150
Other changes in net position	668	(2,075)
Increase in net position	231,001	72,041
Net position:		
Beginning of year, as previously reported	1,654,518	1,186,398
Acquisition of UFHCF	–	396,079
Beginning of year, as restated	1,654,518	1,582,477
End of year	$ 1,885,519	$ 1,654,518

Note: Shands reclassified certain amounts in its audited consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2020, to conform to the presentation in the consolidated basic statement of revenues, expenses, and changes in net position for the year ended June 30, 2021.

Operating Revenues

Total operating revenues increased by $227.5 million, or 11.3%, due to a $224.5 million increase in net patient service revenue and a $3.0 million increase in other operating revenue. The increase in net patient service revenue is primarily due to increased patient acuity levels, with inpatient case mix intensity ahead of prior year by 3.8%, increases in payor payment rates, and increased Medicare reimbursement due to the temporary elimination of sequestration rate reductions and other favorable reimbursement policies implemented by the federal government during the COVID-19 pandemic. Declines in patient activity levels due to the continued impact of COVID-19 have partially offset the positive factors affecting net patient service revenue. Patient admissions decreased by 1.2% over the prior year. However, the overall decline in admissions is driven by lower intensity observation cases, which declined by 14.5%, with inpatient admissions increasing by 1.7%.

Operating Expenses

Operating expenses increased by $144.0 million, or 7.2%, due to a $57.1 million (6.4%) increase in salaries and benefits and an $86.6 million (8.6%) increase in supplies and services. The increase in salaries and benefits is due to a $37.6 million increase in salaries and wages and a $19.6 million increase in employee benefits. The increase in salaries and wages is due to a 3.8% increase in average wage rates ($26.3 million), an increase in contract labor ($8.1 million), and a 0.5% increase in labor hours ($3.2 million). The increase in employee benefits is primarily due to a $13.3 million increase in employee group health expense due to increased claims, a $5.0 million increase in DB pension plan expense, and a $1.3 million increase in other benefits consistent with the increase in salaries and wages. The increase in supplies and services is primarily due to a $67.6 million increase in medical and non-medical supplies, a $13.5 million increase in purchased services, and a $5.3 million increase in expenditures in support of UF and its health science colleges. The increase in supplies is driven by inflationary cost increases and increases in patient acuity resulting in increased utilization of drugs, surgical implants, and other 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 driven by increased contract medical services, including lab services and purchased computer services.

Nonoperating Revenues, Net

Nonoperating revenues, net increased by $78.4 million, or 119.4%, primarily due to a $115.3 million increase in investment income (including changes in fair value of investments), partially offset by a $37.6 million decrease in federal grants and state appropriations. The increase in investment income is primarily due to a $101.2 million increase in investment gains from STHC's pooled investment program, a $9.6 million increase in the change in fair value of investments, and a $5.0 million increase in investment income from direct investments. The decrease in federal grants and state appropriations is due to a decrease in Provider Relief Funds received as part of the CARES Act (see "COVID-19 Pandemic").

Other Changes in Net Position

Capital contributions decreased by $5.7 million, and other changes in net position increased by $2.7 million.

Patient Volumes

The following tables present the associated volumes of each facility on a comparative basis for the years ended June 30, 2021 and 2020:

	2021	2020	Net Change	% Change
Admissions (1)				
UF Health Shands Hospital	51,039	50,575	464	0.9%
UF Health Shands Psychiatric Hospital	3,718	3,477	241	6.9%
UF Health Leesburg Hospital	18,547	19,279	(732)	(3.8)%
UF Health The Villages® Hospital	15,804	16,857	(1,053)	(6.2)%
Total	89,108	90,188	(1,080)	(1.2)%
Outpatient Visits (2)				
UF Health Shands Hospital	1,062,908	977,199	85,709	8.8%
UF Health Shands Psychiatric Hospital	976	653	323	49.5%
UF Health Florida Recovery Center	25,767	24,696	1,071	4.3%
UF Health Leesburg Hospital	65,224	71,301	(6,077)	(8.5)%
UF Health The Villages® Hospital	52,143	47,425	4,718	9.9%
Total	1,207,018	1,121,274	85,744	7.6%

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

Total admissions decreased by 1.2%, inpatient admissions increased by 1.7%, and observation admissions decreased by 14.3%. Total outpatient visits, including emergency room and trauma visits, increased by 7.6%. Emergency room and trauma visits decreased by 3.2%, while all other outpatient visits increased by 9.9%. The decreases in observation admissions and emergency room and trauma visits are largely caused by the continued effects of the COVID-19 pandemic (see "COVID-19 Pandemic").

Defined Benefit Pension Plan Funded Status

As of June 30, 2021, the funded status, as measured under the Employee Retirement Income Security Act of 1974 funding rules, was 89.4%, an increase from 73.1% as of June 30, 2020. The increase in the funded status is largely due to an increase in the fair value of plan investments.

Cybersecurity Event at UFHCF

On May 31, 2021, UFHCF detected unusual activity involving its computer systems. Management took immediate action to contain the event, including reporting it to law enforcement and launching an investigation with independent experts. The investigation determined that unauthorized access to UFHCF's computer network occurred between May 29, 2021 and May 31, 2021. During this brief time period, some individuals' information may have been accessible, such as names, addresses, dates of birth, social security numbers, health insurance information, medical record numbers and patient account numbers, as well as limited treatment information used by UFHCF for its business operations. UFHCF's electronic medical records were not involved or accessed. Management has no reason to believe the accessed information was further used or disclosed; however, UFHCF began mailing letters to individuals whose data may have been involved and, as a precautionary measure, has offered them complimentary credit monitoring and identity protection services. Patients have also been encouraged to review statements from their health insurer, and to contact them immediately if they see any services they did not receive. UFHCF also has established a dedicated call center for patients to call with questions.

UFHCF has responded to additional inquiries from law enforcement and regulatory agencies whose investigations are ongoing. At this time, management cannot estimate the full potential financial impact of this unanticipated cybersecurity event on operations. Shands has insurance coverage and contingency plans for certain potential liabilities relating to the data breach; however, Shands will be responsible for deductibles and any other expenses that may be incurred in excess of insurance coverage.

COVID-19 Pandemic

Shands' operations and financial condition have been significantly impacted by the continuing effects of a novel coronavirus ("COVID-19") which evolved into a global pandemic beginning in early 2020. On March 13, 2020, former President Trump declared a national emergency in response to the COVID-19 pandemic. Shortly thereafter, former 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.

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 have evolved throughout the pandemic as management continues to work 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.

Since May 2020, when the prohibition on elective procedures was lifted, Shands has experienced a recovery of patient volumes (and in some cases new growth) for certain services (primarily surgical and outpatient services), but only a partial recovery of patient volumes for other services (inpatient admissions and emergency room and trauma visits) due to the continuing effects of the COVID-19 pandemic.

The financial impact of the COVID-19 pandemic has primarily been driven by lost revenue due to sharp declines in patient volume resulting from Executive Order 20-72 and the continuing societal effects of the pandemic on patient volume. Increased expenses due to an increased need for personal protective equipment for caregivers and visitors, and materials and staffing necessary for COVID-19 testing (i.e., swabs, collection kits, reagents, etc.) have also had a continued impact on financial performance.

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

- The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020, and authorized $100 billion in direct funding to hospitals and other healthcare providers through the creation of a Provider Relief Fund ("PRF"). Congress later passed the Paycheck Protection Program and Health Care Enactment Act on April 24, 2020, which increased the amount of the PRF to $175 billion. This funding is intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and is not required to be repaid, provided recipients attest to and comply with certain terms and conditions. Since April 2020, the U.S. Department of Health and Human Services ("HHS") has made various general and targeted distributions to health care providers from the PRF. In April 2020, Shands received distributions of $42.2 million as part of the general distribution from the PRF. In July 2020, Shands received an additional $1.8 million from the PRF targeted to certain rural providers. In October 2020 and January 2021, Shands received an additional $0.1 million and $2.6 million, respectively, from the PRF. These distributions were recorded as grant revenue within federal grants and state appropriations in the consolidated basic statements of revenues, expenses and changes in net position in the fiscal year the funds were received.

- HHS released reporting requirements for the PRF, including guidance and clarification on eligible uses for funds received from the PRF, and has subsequently revised the reporting requirements at various times since the creation of the PRF. Based on the most recent guidance, recipients may use funds for health care related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and then for lost patient care revenue. Measurement dates for the use of funds vary based on the timing of the receipt of funds. Management is aware that funds received from the PRF are subject to audit, and certain amounts could be at risk of being paid back in the future. However, based on the estimated financial impact of COVID-19 through June 30, 2021, management does not believe such repayment amounts, if any, would be material to the consolidated basic financial statements.

- The CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. Acute care hospitals could 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. The CARES Act originally required accelerated payments to be repaid within one year of receipt. However, Congress subsequently postponed the timing of the recoupment of the accelerated payments due to the continuation of the COVID-19 pandemic, and on October 1, 2020, enacted the Continuing Appropriations Act, 2021 and Other Extensions Act, which amended the repayment terms for these funds such that recoupment of accelerated payments will commence one year from the date funds were issued. Following one year, a portion of each provider's Medicare fee-for-service claims payments will be withheld over the next seventeen months (25% withhold for the first eleven months and 50% withhold for the next six months). Any unrecouped accelerated payments will be due and payable twenty-nine months from initial receipt of funds. In April 2020, Shands received Medicare advances totaling $229.2 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. As of June 30, 2021, Shands has repaid $30.7 million of Medicare advances. Based on the updated repayment terms, management estimates that as of June 30, 2021, approximately $166.9 million is expected to be repaid within one year and as such, is recorded as Medicare advances, current portion and included in current liabilities in the consolidated basic statement of net position. The remaining balance of $31.7 million is recorded as Medicare advances, less current portion and is included in long-term liabilities in the consolidated basic statement of net position.

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

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, 2021, Shands had $1,108.5 million in long-term debt outstanding compared to $1,132.3 million at June 30, 2020. 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, $951.7 million is attributable to STHC's Obligated Group obligations compared to $968.7 million at June 30, 2020. 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, $156.8 million is attributable to UFHCF's Obligated Group obligations compared to $163.6 million at June 30, 2020. 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.

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. The line of credit expired on July 6, 2021, and was not renewed. No amounts were drawn under this revolving line of credit.

Credit Ratings

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Basic Statement of Net Position
(in thousands of dollars)

June 30, 2021

Assets		
Current assets:		
Cash and cash equivalents	$	186,287
Short-term investments		209,710
Patient accounts receivable, net of allowance for uncollectibles of $83,325		320,361
Inventories		58,473
Prepaid expenses and other current assets		87,566
Total current assets		862,397
Assets whose use is limited		1,120,173
Assets whose use is restricted		61,377
Capital assets, net		1,370,271
Other assets		191,166
Total assets		3,605,384
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives		36,082
Deferred loss on debt refunding		25,575
Deferred outflows on pension		43,482
Total deferred outflows of resources		105,139
Liabilities		
Current liabilities:		
Long-term debt, current portion		24,398
Capital lease obligations, current portion		791
Accounts payable and accrued expenses		185,873
Accrued salaries and leave payable		94,519
Estimated third-party payor settlements		114,505
Medicare advances, current portion		166,903
Total current liabilities		586,989
Long-term liabilities:		
Long-term debt, less current portion		1,084,132
Capital lease obligations, less current portion		4,994
Medicare advances, less current portion		31,679
Other liabilities		67,513
Total long-term liabilities		1,188,318
Total liabilities		1,775,307
Deferred inflows of resources		
Deferred gain on debt refunding		1,917
Deferred inflows on pension		47,780
Total deferred inflows of resources		49,697
Net position		
Net investment in capital assets		311,116
Restricted:		
Nonexpendable		986
Expendable		4,248
Unrestricted		1,569,169
Total net position	$	1,885,519

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Basic Statement of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

Year Ended June 30, 2021

Operating revenues	
Net patient service revenue, net of provision for bad debts of $189,977	$ 2,188,083
Other operating revenue	47,190
Total operating revenues	2,235,273
Operating expenses	
Salaries and benefits	943,299
Supplies and services	1,094,293
Depreciation and amortization	112,923
Total operating expenses	2,150,515
Operating income	84,758
Nonoperating revenues (expenses)	
Federal grants and state appropriations	11,603
Interest expense	(42,458)
Net investment income, including change in fair value	176,315
Loss on disposal of capital assets, net	(723)
Other nonoperating expenses, net	(577)
Total nonoperating revenues, net	144,160
Excess of revenues over expenses before capital contributions and other changes in net position	228,918
Capital contributions	1,415
Other changes in net position	668
Increase in net position	231,001
Net position	
Beginning of year	1,654,518
End of year	$ 1,885,519

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Basic Statement of Cash Flows

(in thousands of dollars)

Year Ended June 30, 2021

Cash flows from operating activities	
Cash received from patients and third-party payors	$ 2,137,361
Other receipts from operations	48,334
Payments for salaries and benefits	(941,440)
Payments to suppliers and vendors	(1,071,482)
Net cash provided by operating activities	172,773
Cash flows from noncapital financing activities	
Federal grants and state appropriations	11,603
Donations and pledge receipts	6,963
Other noncapital financing activities	(4,368)
Net cash provided by noncapital financing activities	14,198
Cash flows from capital and related financing activities	
Purchase of capital assets	(106,489)
Proceeds from sale of capital assets	591
Principal payments on long-term debt	(18,386)
Principal payments on capital lease obligations	(720)
Interest payments	(46,710)
Receipt of collateral on interest rate swaps	4,620
Capital contributions	1,415
Reimbursement from trustee-held project fund	37,831
Net cash used in capital and related financing activities	(127,848)
Cash flows from investing activities	
Investment income received	391
Payments received on notes receivable	5,551
Distributions from unconsolidated affiliates	6,332
Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted	(351,468)
Sale of short-term investments, assets whose use is limited, and assets whose use is restricted	228,214
Other investing activities	4,605
Net cash used in investing activities	(106,375)
Net decrease in cash and cash equivalents	(47,252)
Cash and cash equivalents	
Beginning of year	233,539
End of year	$ 186,287

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Basic Statement of Cash Flows (continued)

(in thousands of dollars)

Year Ended June 30, 2021

Reconciliation of operating income to net cash provided by operating activities		
Operating income	$	84,758
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		112,923
Provision for bad debts		189,977
Changes in:		
Patient accounts receivable		(234,435)
Inventories		(1,934)
Prepaid expenses and other current assets		(18,973)
Other assets		9,069
Accounts payable and accrued expenses		41,010
Accrued salaries and leave payable		17,162
Estimated third-party payor settlements		23,577
Medicare advances		(30,655)
Other liabilities		(19,706)
Total adjustments		88,015
Net cash provided by operating activities	$	172,773
Supplemental noncash investing, capital and financing activities		
Accrued purchases of capital assets	$	9,873

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Statement of Fiduciary Net Position – Defined Benefit Pension Plan

(in thousands of dollars)

June 30, 2021

Assets	
Cash	$ 72
Receivables:	
Accounts receivable – sale of investments	38,193
Accrued interest and dividends	3,733
Accounts receivable – foreign currency contracts and other	167
Total receivables	42,093
Investments:	
Interest bearing cash	3,792
U.S. government securities	217,743
Corporate debt instruments – preferred	73,162
Corporate debt instruments	153,905
Fixed income funds	310,329
Equity funds	308,406
Preferred and common stock	125,808
Private equity funds	17,680
Other investments	9,411
Total investments	1,220,236
Total assets	1,262,401
Liabilities	
Accounts payable – purchase of investments and dividend foreign taxes payable	71,421
Accrued expenses	719
Total liabilities	72,140
Net position restricted for pension benefits	$ 1,190,261

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Statement of Changes in Fiduciary Net Position – Defined Benefit Pension Plan
(in thousands of dollars)

Year Ended June 30, 2021

Additions	
Contributions:	
Employer	$ 16,832
Investment income	240,620
Less investment expenses	(2,345)
Net investment income	238,275
Total additions	255,107
Deductions	
Benefit payments	55,663
PBGC insurance premium	5,182
Administrative expenses	532
Total deductions	61,377
Net increase in net position	193,730
Net position restricted for pension benefits	
Beginning of year	996,531
End of year	$ 1,190,261

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

1. Organization

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

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

The following describes the primary activities and operations of Shands:

UF Health Shands

- **STHC** operates the following:

    - **UF Health Shands Hospital** is part of a major academic medical center located in Gainesville, Florida, and is licensed to operate a 1,014-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.

1. Organization (continued)

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

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

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

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

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

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

UF Health Central Florida

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

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

1. Organization (continued)

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

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

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

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

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

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

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

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

1. Organization (continued)

Description of the Reporting Entity

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

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

Use of Estimates

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

2. Summary of Significant Accounting Policies (continued)

Tax Status

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

Cash and Cash Equivalents

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

Investments

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

Shands’ direct investments primarily consist of the Florida Treasury Investment Pool Special Purpose Investment Account (the “SPIA”), government securities, fixed income securities, fixed income mutual funds, domestic equity mutual funds, international equity mutual funds, real estate investment trusts, 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.

2. Summary of Significant Accounting Policies (continued)

Assets Whose Use is Restricted

Assets whose use is restricted primarily include assets held by trustees under indenture agreements, 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 five years. Pledges receivable are recorded net of an estimated allowance for uncollectible pledges. The current portion of pledges receivable is reported in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position. The long-term portion of pledges receivable is reported in other assets in the accompanying consolidated basic statement of net position. For the year ended June 30, 2021, pledge discount rates range from 0.1% 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. Shands capitalizes assets with an initial cost of $2,000 or greater. 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 of the lease term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statement of revenues, expenses and changes in net position.

2. Summary of Significant Accounting Policies (continued)

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

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

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

Unconsolidated Affiliates

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

Accrued Leave

Shands provides paid time off ("PTO") to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. Shands accrues the estimated expense related to PTO based on pay rates currently in effect. Upon termination of employment, employees will have their eligible PTO paid in varying amounts. Accrued PTO was approximately $51,853,000 as of June 30, 2021, and is included in accrued salaries and leave payable in the accompanying consolidated basic statement of net position.

Long-Term Debt

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

2. Summary of Significant Accounting Policies (continued)

Bond Issuance Costs

Bond issuance costs are expensed at time of issuance. Bond issuance costs of approximately $135,000 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, 2021.

Bond Premiums and Discounts

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

Derivative Financial Instruments

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

2. Summary of Significant Accounting Policies (continued)

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

Defined Benefit Pension Plan

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

Net Position

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

2. Summary of Significant Accounting Policies (continued)

Revenues and Expenses

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

Net Patient Service Revenue and Patient Accounts Receivable

Shands has agreements with Medicare, Medicaid, and other third-party payors that provide for payments to Shands at amounts different from its established rates. Payment arrangements vary significantly and include, but are not limited to, prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the year ended June 30, 2021, net patient service revenue decreased by approximately $10,249,000 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 consolidated basic statement of net position, represent the best estimate to date of the estimated liability for outstanding Medicare, Medicaid, and other third-party payor settlements.

2. Summary of Significant Accounting Policies (continued)

Medicare

Shands participates in the federal Medicare program. Approximately 41.0% of Shands' net patient service revenue for the year ended June 30, 2021, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. Shands is paid for certain reimbursable services at a tentative rate with final settlement determined after submission of annual cost reports by Shands and audits by the Medicare Administrative Contractor ("MAC"). Shands' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2021, the Medicare cost reports were final settled by the MAC through June 30, 2008 for STHC, through June 30, 2018 for UFHL, and through June 30, 2019 for UFHV.

Medicaid

Shands participates in the State of Florida Medicaid program. The Agency for Health Care Administration ("AHCA") administers the Statewide Medicaid Managed Care Managed Medical Assistance ("MMA") Program. The MMA program is comprised of several types of managed care plans including health maintenance organizations, provider service networks, and other specialized networks. The majority of Medicaid beneficiaries are required to enroll in the MMA program. Approximately 12.1% of Shands' net patient service revenue for the year ended June 30, 2021, was derived from services to Medicaid beneficiaries. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed at prospectively determined rates based upon Enhanced Ambulatory Patient Groupings ("EAPGs").

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

2. Summary of Significant Accounting Policies (continued)

provided to Medicaid beneficiaries based on tentative rates derived from filed annual cost reports. These rates are subject to retroactive adjustments based on the results of final audited cost reports. As of June 30, 2021, all cost reports used to determine rates subject to retroactive adjustments have been final audited and any amounts due to AHCA based on the audit results are reported in estimated third-party payor settlements in the accompanying consolidated basic statement of net position.

Other Third-Party Payors

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

Provision for Bad Debts and Allowance for Uncollectible Accounts

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

Accounting Pronouncements

In 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*

2. Summary of Significant Accounting Policies (continued)

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, is for reporting periods beginning after December 15, 2019. Shands adopted GASB No. 84 as of July 1, 2020. The adoption of GASB No. 84 resulted in the reporting of fiduciary activities related to the Plan in the statements of fiduciary net position – defined benefit pension plan and changes in fiduciary net position – defined benefit pension plan and related disclosures in the notes to the consolidated basic financial statements. In addition, adoption of GASB No. 84 resulted in the reporting of fiduciary net position restricted for pension benefits of approximately $996,531,000 as of July 1, 2020.

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, is 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 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, is for reporting periods beginning after December 15, 2019. Shands adopted GASB No. 90 as of July 1, 2020. The adoption of this statement did not have a material impact on the consolidated basic financial statements.

2. Summary of Significant Accounting Policies (continued)

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

In 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 entity 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, is 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, is for reporting periods beginning after June 15, 2021. The effective date of all remaining provisions of GASB No. 92 is for reporting periods beginning after June 15, 2020. Shands is currently evaluating the impact paragraphs 6-10 and 12 of GASB No. 92 will have on its consolidated basic financial statements. Shands adopted all of the remaining provisions of GASB No. 92 as of July 1, 2020. The adoption of the statement did not have a material impact on the consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates* ("GASB No. 93"). GASB No. 93 establishes accounting and financial reporting requirements related to the replacement of certain interbank offered rates – most notably the London Interbank Offered Rate (LIBOR) – in hedging derivative instruments and leases, and identifies appropriate benchmark interest rates for hedging derivative instruments. LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate 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, is for fiscal years beginning after June 15, 2021, and all reporting periods

2. Summary of Significant Accounting Policies (continued)

thereafter. The effective date of all other provisions of GASB No. 93 is for reporting periods beginning after June 15, 2020. Shands is currently evaluating the impact paragraphs 13 and 14 of GASB No. 93 will have on its consolidated basic financial statements. Shands adopted all of the remaining provisions of GASB No. 93 as of July 1, 2020. The adoption of the statement did not have a material impact on the 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. 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.

2. Summary of Significant Accounting Policies (continued)

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. Shands adopted paragraphs 4 and 5 of GASB No. 97 as of July 1, 2020. The adoption of this statement did not have a material impact on the consolidated basic financial statements. 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, 2021, were approximately 3.2%.

3. Unsponsored Community Benefit (continued)

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.

3. Unsponsored Community Benefit (continued)

Shands' valuation of unsponsored community benefits at estimated cost, net of reimbursement, for the year ended June 30, 2021, is as follows:

(in thousands of dollars)

Financial assistance provided	$ 67,352
Government support applied to charity care	(2,919)
Medicaid shortfall	91,876
Net unreimbursed financial assistance and Medicaid shortfall	156,309
Benefits for the broader community:	
Community health services	5,005
Health professions education	24,210
Research	17,542
Donations	495
Total quantifiable benefits for the broader community	47,252
Total unsponsored community benefits	$ 203,561

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

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, fundraising, youth sponsorship, and other related activities.

4. Investments

Investments are reported in the accompanying consolidated basic statement of net position as follows at June 30, 2021**:**

(in thousands of dollars)

Current assets:	
Short-term investments	$ 209,710
Long-term assets:	
Assets whose use is limited	1,120,173
Assets whose use is restricted	61,377
	$ 1,391,260

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, 2021:

(in thousands of dollars)

Held by trustees under indenture agreements	$ 51,851
Held by counterparty under interest rate swap agreements	1,720
Held by trustee to meet workers' compensation and medical malpractice requirements	5,056
Donor funds restricted for specific purposes	2,740
Held by insurance company under escrow agreement	10
	$ 61,377

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

4. Investments (continued)

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

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

4. Investments (continued)

The maturity of investments at June 30, 2021, 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	$ 309,756	$ –	$ –	$ –	$ –	$ 309,756
Florida Global Equity Fund, LLC	440,231	–	–	–	–	440,231
Florida Hedged Strategies Fund, LLC	127,528	–	–	–	–	127,528
	877,515	–	–	–	–	877,515
Direct Investments:						
SPIA	221,580	–	221,580	–	–	–
Government securities	5,368	–	2,529	590	2,249	–
Fixed income securities	4,037	254	742	2,483	458	100
Fixed income mutual funds	124,087	–	–	–	–	124,087
Domestic equity mutual funds	33,796	–	–	–	–	33,796
International equity mutual funds	43,735	–	–	–	–	43,735
Real estate investment trusts	3,746	–	–	–	–	3,746
Asset-backed securities	1,178	–	194	984	–	–
Equity securities ETF	59,304	230	217	431	2	58,424
Money market funds	15,091	243	–	–	–	14,848
Private equity	103	–	–	–	–	103
Cash collateral on deposit with interest rate swap counterparty	1,720	1,720	–	–	–	–
	513,745	2,447	225,262	4,488	2,709	278,839
	$ 1,391,260	$ 2,447	$ 225,262	$ 4,488	$ 2,709	$ 1,156,354

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.

4. Investments (continued)

The credit risk profile of Shands' investments as of June 30, 2021, 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	$ 309,756	$ –	$ –	$ –	$ –	$ 309,756
Florida Global Equity Fund, LLC	440,231	–	–	–	–	440,231
Florida Hedged Strategies Fund, LLC	127,528	–	–	–	–	127,528
	877,515	–	–	–	–	877,515
Direct Investments:						
SPIA	221,580	–	221,580	–	–	–
Government securities	5,368	5,368	–	–	–	–
Fixed income securities	4,037	78	–	1,793	2,066	100
Fixed income mutual funds	124,087	–	–	–	–	124,087
Domestic equity mutual funds	33,796	–	–	–	–	33,796
International equity mutual funds	43,735	–	–	–	–	43,735
Real estate investment trusts	3,746	–	–	–	–	3,746
Asset-backed securities	1,178	–	–	–	–	1,178
Equity securities ETF	59,304	432	–	91	332	58,449
Money market funds	15,091	–	–	–	–	15,091
Private equity	103	–	–	–	–	103
Cash collateral on deposit with interest rate swap counterparty	1,720	–	–	–	–	1,720
	513,745	5,878	221,580	1,884	2,398	282,005
	$ 1,391,260	$ 5,878	$ 221,580	$ 1,884	$ 2,398	$ 1,159,520

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, 2021, Shands did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk

As of June 30, 2021, Shands' investments were not exposed to custodial credit risk since the full amount of investments were insured, collateralized, or registered in Shands' name.

4. Investments (continued)

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, 2021.

Investment Income

Net investment income, including change in fair value, for the year ended June 30, 2021, is as follows:

(in thousands of dollars)

Pooled investment program income	$ 139,260
Dividends, interest and other income	10,014
Net realized gain on investments	10,813
Net increase in fair value of investments	16,228
	$ 176,315

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 current year and in prior years.

5. Fair Value

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

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

5. Fair Value (continued)

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

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

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 year. The remaining unfunded commitment as of June 30, 2021, 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 for the year ended June 30, 2021, is as follows:

(in thousands of dollars)

	Balance at June 30, 2020	**Additions**	**Disposals and Transfers**	**Balance at June 30, 2021**
Depreciable assets:				
Buildings and leasehold improvements	$ 1,661,484	$ 89,112	$ (2,238)	$ 1,748,358
Equipment	890,777	52,978	(16,266)	927,489
Total depreciable assets	2,552,261	142,090	(18,504)	2,675,847
Accumulated depreciation:				
Buildings and leasehold improvements	(604,305)	(50,612)	1,059	(653,858)
Equipment	(757,419)	(62,311)	16,595	(803,135)
Total accumulated depreciation	(1,361,724)	(112,923)	17,654	(1,456,993)
Net depreciable assets	1,190,537	29,167	(850)	1,218,854
Land	89,336	2,016	(576)	90,776
Construction-in-progress	99,192	93,177	(131,728)	60,641
Capital assets, net	$ 1,379,065	$ 124,360	$ (133,154)	$ 1,370,271

Depreciation and amortization expense was approximately $112,923,000 for the year ended June 30, 2021. Amortization expense on equipment under capital leases was approximately $801,000 for the year ended June 30, 2021. For the year ended June 30, 2021, fully depreciated capital assets with an original cost of approximately $17,427,000 were disposed of and are no longer in service. Construction-in-progress at June 30, 2021 consists primarily of costs incurred for the construction of 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. Starke HMA, LLC and Live Oak HMA, LLC are in the process of winding down their business activities following the sale of the two rural community hospitals and will eventually be dissolved.

STHC has a 40% minority interest in Lake Shore HMA, LLC, which previously leased 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 previously managed 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 terminated the hospital lease, released STHC from obligations under the lease, and transferred possession of certain hospital assets to the Lake Shore Authority effective September 30, 2020. Lake Shore HMA, LLC is in the process of winding down its business activities following the termination of the hospital lease and will eventually be dissolved.

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

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

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

7. Unconsolidated Affiliates (continued)

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

On December 17, 2019, STHC entered into a Management Services, Governance, and Contribution Agreement (the “Deltona Agreement”) with Halifax Hospital Medical Center (“Halifax”), Halifax Management System, Inc. (“HMS”) and various affiliated entities including Medical Center of Deltona, Inc., which operates Halifax Health | UF Health Medical Center of Deltona (“MCD”), a 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 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. For the year ended June 30, 2021, an impairment loss of approximately $8,219,000 was recognized on UFHL’s investment in LMI based on a recent asset appraisal, and is included in other nonoperating expenses, net in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

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.

7. Unconsolidated Affiliates (continued)

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%. For the year ended June 30, 2021, an impairment loss of approximately $902,000 was recognized on UFHCF's investment in LeeSar, and is included in other nonoperating expenses, net in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

A summary of changes in investments in unconsolidated affiliates for the year ended June 30, 2021, is as follows:

(in thousands of dollars)

	Balance at June 30, 2020	Distributions	Investment Gain (Loss)	Impairment	Balance at June 30, 2021
Starke HMA, LLC	$ –	$ –	$ –	$ –	$ –
Live Oak HMA, LLC	–	–	–	–	–
Lake Shore HMA, LLC	–	–	–	–	–
CareSpot	3,303	(1,771)	1,586	–	3,118
SSH	4,540	(1,277)	788	–	4,051
Archer Rehab	8,091	(1,972)	1,317	–	7,436
South Central	6,856	(412)	–	–	6,444
MCD	7,086	–	(2,740)	–	4,346
LMI	23,267	(900)	225	(8,219)	14,373
CFCCMC	385	–	272	–	657
LeeSar	5,668	–	416	(902)	5,182
	$ 59,196	$ (6,332)	$ 1,864	$ (9,121)	$ 45,607

8. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2021:

(in thousands of dollars)

Direct Placement Tax-Exempt Bonds:	
Alachua County Health Facilities Authority:	
Series 2008C, final maturity October 2028	$ 28,125
Series 2016A, final maturity December 2030	34,825
	62,950
City of Leesburg, Florida:	
Series 2011, final maturity July 2036	52,855
Series 2017, final maturity July 2036	27,910
	80,765
	143,715
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	109,600
Series 2019B-2, final maturity December 2037	45,020
	712,175
Sumter County Industrial Development Authority:	
Series 2014A, final maturity July 2044	44,670
Series 2014B, final maturity July 2032	28,365
	73,035
	785,210
Taxable Notes:	
Series 2013A, final maturity December 2042	125,000
Installment debt, final maturity June 2024	1,115
	1,055,040
Net unamortized bond premium	53,490
Total long-term debt	1,108,530
Less: Current portion	(24,398)
Long-term portion	$ 1,084,132

8. Long-Term Debt (continued)

Changes in Shands' long-term debt, excluding unamortized discounts or premiums, for the year ended June 30, 2021, were as follows:

(in thousands of dollars)

	Balance at June 30, 2020	Additions	Reductions	Balance at June 30, 2021	Amounts Due Within One Year
Direct Placement Tax-Exempt Bonds:					
Alachua County Health Facilities Authority:					
Series 2008C, final maturity October 2028	$ 31,875	$ –	$ (3,750)	$ 28,125	$ 3,750
Series 2016A, final maturity December 2030	38,795	–	(3,970)	34,825	4,355
	70,670	–	(7,720)	62,950	8,105
City of Leesburg, Florida:					
Series 2011, final maturity July 2036	55,420	–	(2,565)	52,855	2,695
Series 2017, final maturity July 2036	28,985	–	(1,075)	27,910	1,135
	84,405	–	(3,640)	80,765	3,830
	155,075	–	(11,360)	143,715	11,935
Other Tax-Exempt Bonds:					
Alachua County Health Facilities Authority:					
Series 2007A, final maturity December 2037	40,395	–	–	40,395	–
Series 2008A, final maturity December 2037	49,990	–	–	49,990	–
Series 2014A, final maturity December 2044	250,000	–	–	250,000	–
Series 2014B, final maturity December 2034	50,000	–	–	50,000	–
Series 2019A, final maturity December 2049	167,170	–	–	167,170	–
Series 2019B-1, final maturity December 2037	113,100	–	(3,500)	109,600	3,865
Series 2019B-2, final maturity December 2037	45,020	–	–	45,020	–
	715,675	–	(3,500)	712,175	3,865
Sumter County Industrial Development Authority					
Series 2014A, final maturity July 2044	45,615	–	(945)	44,670	995
Series 2014B, final maturity July 2032	30,265	–	(1,900)	28,365	1,995
	75,880	–	(2,845)	73,035	2,990
	791,555	–	(6,345)	785,210	6,855
Taxable Notes:					
Series 2013A, final maturity December 2042	125,000	–	–	125,000	–
Installment debt, final maturity June 2024	1,796	–	(681)	1,115	367
Total long-term debt	$ 1,073,426	$ –	$ (18,386)	$ 1,055,040	$ 19,157

The current portion of net unamortized bond premium was approximately $5,241,000 as of June 30, 2021.

8. Long-Term Debt (continued)

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

(in thousands of dollars)

	Direct Placement Bonds		Other Bonds and Notes		Installment Debt		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:								
2022	$ 11,935	$ 1,946	$ 6,855	$ 38,401	$ 367	$ 14	$ 19,157	$ 40,361
2023	12,210	1,750	7,355	38,045	372	9	19,937	39,804
2024	9,075	1,594	11,386	37,616	376	4	20,837	39,214
2025	8,885	1,483	12,970	37,049	–	–	21,855	38,532
2026	9,120	1,376	13,770	36,380	–	–	22,890	37,756
2027-2031	59,420	3,850	104,155	162,854	–	–	163,575	166,704
2032-2036	27,140	892	164,225	143,504	–	–	191,365	144,396
2037-2041	5,930	48	136,275	115,185	–	–	142,205	115,233
2042-2046	–	–	317,055	56,234	–	–	317,055	56,234
2047-2051	–	–	136,164	11,113	–	–	136,164	11,113
	$ 143,715	$ 12,939	$ 910,210	$ 676,381	$ 1,115	$ 27	$ 1,055,040	$ 689,347

Cash paid for interest was approximately $46,710,000 for the year ended June 30, 2021.

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, 2021. 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

8. Long-Term Debt (continued)

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, 2021. 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 1.36% at June 30, 2021.

Series 2016A Health Facilities Revenue Refunding Bonds

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

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

8. Long-Term Debt (continued)

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

Series 2011 Hospital Revenue Refunding Bonds

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

The Series 2011 Bonds are variable rate bonds based upon 79% of one-month LIBOR plus 0.73%. The interest rate on the Series 2011 Bonds was 0.81% at June 30, 2021.

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 0.80% at June 30, 2021.

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

Series 2007A Health Facilities Revenue Bonds

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

The Series 2007A Bonds are variable rate bonds based upon 67% of three-month LIBOR plus 0.87%. The interest rate on the bonds is reset quarterly and the interest rate was 0.96% at June 30, 2021. The Series 2007A Bonds are redeemable at STHC's option at par value.

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.

8. Long-Term Debt (continued)

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 0.12% at June 30, 2021. The Series 2008A Bonds are backed by a bank letter of credit ("LOC") expiring 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, 2021. In the event of a draw on the LOC, beginning on the date that is 367 days after the draw, STHC shall begin to repay the principal component of the draw in six equal installments, due every six months thereafter. The Series 2008A Bonds are redeemable at the option of STHC at par value.

Series 2014A and Series 2014B Health Facilities Revenue Bonds

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

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

Series 2019A Health Facilities Revenue Bonds

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

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

8. Long-Term Debt (continued)

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

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

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

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

Series 2014A Hospital Revenue Bonds

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

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

Series 2014B Hospital Revenue Bonds

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

8. Long-Term Debt (continued)

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

Taxable Notes

Series 2013A Taxable Notes

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

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

Line of Credit

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. The line of credit expired on July 6, 2021 and was not renewed. No amounts were drawn under this revolving line of credit.

9. Interest Rate Swaps

At June 30, 2021, 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.	$ (11,829)
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.	(15,898)
2008C	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008C Bonds	$ 28,125	11/5/2008	10/2/2028	Pay fixed rate of 4.18%. Receive 65% of one-month LIBOR plus 130 basis points.	(2,417)
2011	Fixed rate payer interest rate swap	Hedge of changes in cash flows on a portion of the Series 2011 Bonds	$ 13,495	8/14/2008	7/1/2031	Pay fixed rate of 3.352%. Receive 67% of one month LIBOR.	(1,876)
2017	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2017 Bonds	$ 28,000	3/1/2011	7/1/2036	Pay fixed rate of 3.6375%. Receive 67% of one-month LIBOR.	(6,858)
							$ (38,878)

At June 30, 2021, approximately $38,878,000 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 $13,845,000 were reported as accumulated decrease in fair value of hedging derivatives in the accompanying consolidated basic statement of net position.

Credit Risk

Shands has sought to limit its counterparty risk. As of June 30, 2021, the Moody's and Standard & Poor's credit ratings for the counterparty were as follows:

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

9. Interest Rate Swaps (continued)

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, 2021, the weighted variable interest rates on Shands' hedged variable rate debt and swap index are as follows:

Item	Type	Objective	Debt Interest Rate	Swap Index Rate
2008A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008A Bonds	0.12%	67% of one-month LIBOR, reset weekly, or 0.07%
2011	Fixed rate payer interest rate swap	Hedge of changes in cash flows on a portion of the Series 2011 Bonds	0.81%	67% of one-month LIBOR, reset monthly, or 0.06%
2017	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2017 Bonds	0.80%	67% of one-month LIBOR, reset monthly, or 0.06%

Termination Risk

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

Commitments

The 2007A interest rate swap agreement requires collateral to be posted if the fair value of the interest rate swap is negative and exceeds certain thresholds. The threshold amount depends on Shands' unenhanced credit rating as determined by Moody's and Standard & Poor's. Collateral in the amount of $1,720,000 was required to be posted by Shands with the counterparty as of June 30, 2021.

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 $39,583,000 for the year ended June 30, 2021.

UFHCF sponsors a defined contribution plan that covers eligible employees – the CFH 401(k) ("401(k) Plan"). Under the 401(k) Plan, UFHCF makes a matching contribution equal to 100% of the first 4% of compensation that an employee contributes to the 401(k) Plan. Additional contributions to the 401(k) Plan are at the discretion of management up to an additional 1.25% of employee compensation. UFHCF's contributions to the 401(k) Plan were approximately $3,469,000 for the year ended June 30, 2021.

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

Plan Description

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

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

10. Retirement Benefit Plans (continued)

Benefits Provided

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

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, 2020, the measurement date for the pension liability, the following employees of STHC were covered by the benefit terms (participant data as of July 1, 2019):

Active	3,324
Terminated vested	1,707
Retired	2,769
	7,800

Contributions

The Plan Sponsor's funding policy is for STHC and SJHC to make contributions to meet the minimum funding requirements of Internal Revenue Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, STHC and SJHC may contribute an amount above the required contribution. STHC's contributions of approximately $16,210,000 for the year ended June 30, 2021, exceed the minimum funding requirements of ERISA.

10. Retirement Benefit Plans (continued)

Net Pension Asset

STHC's proportionate share of the net pension asset as of June 30, 2021 was approximately $108,180,000, was based on a measurement date of June 30, 2020, and is included in other assets in the accompanying consolidated basic statement of net position. The total pension liability used to calculate the net pension asset as of June 30, 2020, was determined based on the results of an actuarial valuation as of July 1, 2019, projected forward to June 30, 2020, using standard actuarial techniques. STHC's proportionate share of the net pension asset was developed by calculating the pension liability for STHC and SJHC based on the individual participant data as actuarially determined and the plan fiduciary net position was calculated by the timing and amounts of actual contributions and benefit payments made by STHC and SJHC and an allocation of the investment return and administrative expenses based on the weighted average market value of plan assets. At June 30, 2021, STHC's proportionate share of the net pension asset was 93.2%, which was a 2.3% decrease from June 30, 2020.

The total pension liability was based on the results of the actuarial valuation as of July 1, 2019, and was determined based on census data as of July 1, 2019 and the following actuarial assumptions:

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

Salary increases: Not applicable

Inflation: 1.65% for the period July 1, 2019 through June 30, 2020, 0.77% for the period July 1, 2020 through June 30, 2021, and 2.00% per year thereafter.

Retirement Growth Account Interest Crediting Rate: 4.75% for the period July 1, 2019 through June 30, 2020, 3.88% for the period July 1, 2020 through June 30, 2021, and 4.10% per year thereafter. The 4.75% and 3.88% rates represent the actual interest rate credited in each respective period.

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

The actuarial assumptions associated with retirement and termination rates and used in the July 1, 2019 valuation 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.

10. Retirement Benefit Plans (continued)

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

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Global Equity	52.8%	6.27%
Long Credit Fixed Income	37.2%	1.68%
Multi Asset Credit	8.0%	3.04%
Private Equity	2.0%	10.05%
Total	100.0%	

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

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

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

(in thousands of dollars)	**1% Decrease 5.10%**	**Current Discount Rate 6.10%**	**1% Increase 7.10%**
Proportionate share of the net pension asset	$ 15,654	$ 108,180	$ 185,601

10. Retirement Benefit Plans (continued)

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

STHC recognized pension expense of approximately $902,000 for the year ended June 30, 2021. At June 30, 2021, 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	$ 3,089	$ 899
Changes in assumptions	24,183	18,509
Net differences between projected and actual earnings on pension plan investments	–	28,372
Contributions made during the year ended June 30, 2021 not yet recognized in fiduciary net position	16,210	–
Total	$ 43,482	$ 47,780

The contributions made to the Plan during the year ended June 30, 2021 will be reported as an increase in Shands' proportionate share of the net pension asset during the subsequent year. The other amounts reported as deferred outflows of resources on pension and deferred inflows of resources on pension will be recognized as a decrease in pension expense as follows:

(in thousands of dollars)

Year Ending June 30	
2022	$ 14,302
2023	2,225
2024	3,835
2025	146
Thereafter	–

10. Retirement Benefit Plans (continued)

Fair Value Measurements

The following table presents the fair value leveling of the Plan's investments as of the measurement date of June 30, 2020:

(in thousands of dollars)

	Level 1	Level 2	Level 3	Fair Value
Interest bearing cash	$ 2,173	$ –	$ –	$ 2,173
U.S. government securities	16,649	–	–	16,649
Corporate debt instruments-preferred	–	8,317	–	8,317
Corporate debt instruments	–	27,123	–	27,123
Fixed income funds	–	392,972	–	392,972
Equity funds	–	376,326	–	376,326
Preferred and common stock	164,634	–	–	164,634
Other investments	–	2,278	–	2,278
Total assets in the fair value hierarchy	$ 183,456	$ 807,016	$ –	990,472
Investments measured at NAV				16,948
Total investments measured at fair value				$ 1,007,420

Credit Risk

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

10. Retirement Benefit Plans (continued)

Interest Rate Risk

Interest rate risk exposure is managed by limiting investment maturities in accordance with parameters in the Plan's investment policy. The Plan has investments maturing as of the measurement date of June 30, 2020 as follows:

(in thousands of dollars)

	Fair Value	Less Than 1 Year	1–5 Years	6–10 Years	Over 10 Years	N/A
Interest bearing cash	$ 2,173	$ –	$ –	$ –	$ –	$ 2,173
U.S. government securities	16,649	–	6,579	1,923	8,147	–
Corporate debt instruments-preferred	8,317	–	1,676	308	6,333	–
Corporate debt instruments	27,123	1,629	7,841	5,194	12,459	–
Fixed income funds	392,972	–	–	–	–	392,972
Equity funds	376,326	–	–	–	–	376,326
Preferred and common stock	164,634	–	–	–	–	164,634
Other investments	2,278	1,260	142	418	458	–
Total assets in the fair value hierarchy	990,472	$ 2,889	$ 16,238	$ 7,843	$ 27,397	$ 936,105
Investments measured at NAV	16,948					
Total investments measured at fair value	$ 1,007,420					

The Plan has investment credit ratings as of the measurement date of June 30, 2020 as follows:

(in thousands of dollars)

	Fair Value	AAA/AA	A	BBB	Below BBB-	Not Rated
Interest bearing cash	$ 2,173	$ –	$ –	$ –	$ –	$ 2,173
U.S. government securities	16,649	16,649	–	–	–	–
Corporate debt instruments-preferred	8,317	103	3,873	3,239	1,102	–
Corporate debt instruments	27,123	307	4,109	11,378	10,544	785
Fixed income funds	392,972	–	–	–	–	392,972
Equity funds	376,326	–	–	–	–	376,326
Preferred and common stock	164,634	–	–	–	–	164,634
Other investments	2,278	548	–	–	1,587	143
Total assets in the fair value hierarchy	990,472	$ 17,607	$ 7,982	$ 14,617	$ 13,233	$ 937,033
Investments measured at NAV	16,948					
Total investments measured at fair value	$ 1,007,420					

10. Retirement Benefit Plans (continued)

Concentration of Credit Risk

The Plan's investment policy provides certain guidelines to limit concentration of credit risk. These guidelines require long credit fixed income portfolio investments to be appropriately distributed to provide prudent diversification. At the time of purchase, the market value of a holding in an individual issuer will be limited to 5% of the portfolio market value, and each individual issue shall not represent more than 5% of the portfolio market value with the exception of government and government-agency sponsored issues.

Custodial Risk

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of the measurement date of June 30, 2020, the Plan's investment portfolio was held by a single third-party custodian.

Foreign Currency Risk

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

10. Retirement Benefit Plans (continued)

The Plan's exposure to foreign currency risk as of the measurement date of June 30, 2020 is as follows:

(in thousands of dollars)

Currency:	
Australian dollar	$ 3,455
Canadian dollar	2,558
Chilean peso	(56)
Danish krone	5,342
Euro currency unit	37,362
Hong Kong dollar	14,673
Japanese yen	17,935
Mexican peso	(8)
British sterling pound	15,069
Singapore dollar	1,005
South African rand	3,690
South Korean won	1,887
Swedish krona	4,211
Swiss franc	7,277
Total Plan investments subject to foreign currency risk	$ 114,400
Percentage of total Plan investments	11.4%

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

A description of the Plan is included in Note 10.

Employees Covered by Benefit Terms

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

Active	3,062
Terminated vested	1,712
Retired	3,346
	8,120

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

Net Pension Asset

The components of the Plan's net pension asset as of June 30, 2021 were as follows:

(in thousands of dollars)

Total pension liability	$ (970,208)
Plan fiduciary net position	1,190,261
Net pension asset	$ 220,053
Plan fiduciary net position as a percentage of the total pension liability	122.7%

The total pension liability used to calculate the net pension asset as of June 30, 2021, was determined based on the results of an actuarial valuation as of July 1, 2020, projected forward to June 30, 2021 using standard actuarial techniques. The July 1, 2020 actuarial valuation was determined based on the census data as of July 1, 2020 and the following actuarial assumptions:

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

Salary increases: Not applicable

Inflation: 0.65% for the period July 1, 2020 through June 30, 2021, 2.02% for the period July 1, 2021 through June 30, 2022, and 2.00% per year thereafter.

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

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

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

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

For the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of investment plan expenses, was 24.5%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

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

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

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

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

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

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

(in thousands of dollars)	1% Decrease 4.10%	Current Discount Rate 5.10%	1% Increase 6.10%
Net pension asset	$ 105,558	$ 220,053	$ 315,236

Fair Value Measurements

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

(in thousands of dollars)

	Level 1	Level 2	Level 3	Fair Value
Interest bearing cash	$ 3,792	$ –	$ –	$ 3,792
U.S. government securities	217,743	–	–	217,743
Corporate debt instruments-preferred	–	73,162	–	73,162
Corporate debt instruments	–	153,905	–	153,905
Fixed income funds	–	310,329	–	310,329
Equity funds	–	308,406	–	308,406
Preferred and common stock	125,808	–	–	125,808
Other investments	–	9,411	–	9,411
Total assets in the fair value hierarchy	$ 347,343	$ 855,213	$ –	1,202,556
Investments measured at NAV				17,680
Total investments measured at fair value				$ 1,220,236

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

Credit Risk

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

Interest Rate Risk

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

(in thousands of dollars)

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

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

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

(in thousands of dollars)

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

Concentration of Credit Risk

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

Custodial Risk

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

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

Foreign Currency Risk

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

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

(in thousands of dollars)

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

12. 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.

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

12. Commitments and Contingencies (continued)

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, 2021:

(in thousands of dollars)

Year Ending	Capital Leases	Operating Leases
2022	$ 1,025	$ 4,034
2023	1,037	3,445
2024	992	2,758
2025	924	1,938
2026	940	1,672
2027-2031	1,754	5,619
2032-2036	–	1,240
2037-2041	–	1,057
Total minimum lease payments	6,672	$ 21,763
Less: Amount representing interest	(887)	
Present value of net minimum lease payments	$ 5,785	

Operating lease expense for the rental of property and equipment for the year ended June 30, 2021 was approximately $10,134,000. At June 30, 2021, gross assets under capital leases included in capital assets were approximately $8,287,000. Accumulated amortization on capital leases as of June 30, 2021 was approximately $2,789,000.

Commitments

Shands has contracts for the construction and renovation of facilities and equipment purchases. As of June 30, 2021, the remaining commitments relating to these contracts were approximately $45,819,000.

Shands has contracts for the maintenance of its computer application software and communications network. As of June 30, 2021, the remaining commitments relating to these contracts were approximately $3,733,000.

12. Commitments and Contingencies (continued)

Risk Management and Professional Liabilities

Shands is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; cybersecurity events; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters in excess of self-insured limits. Settled claims have not exceeded this commercial coverage for the year ended June 30, 2021.

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

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

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

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, 2021, total approximately $8,531,000 and are

12. Commitments and Contingencies (continued)

included in other liabilities in the accompanying consolidated basic statement of net position. UFHCF may be liable for ultimate losses in excess of amounts accrued. Management believes that any adjustments to Shands' recorded liability will not materially affect Shands' financial position, results of operations or cash flows.

The following is a summary of changes in UFHCF's self-insurance liability for professional and general liability costs for the years ended June 30, 2021 and 2020:

(in thousands of dollars)

	2021	2020
Balance at beginning of year	$ 11,116	$ 14,584
Provision for claims reported and claims incurred but not reported	(881)	(453)
Claims paid	(1,704)	(3,015)
Balance at end of year	$ 8,531	$ 11,116

Self-Insured Health Plans

Shands (excluding UFHCF) participates with other related party employers controlled by UF, including Shands Jacksonville Medical Center ("SJMC"), UFICO, and other eligible employees of UF, in a self-insured health plan ("GatorCare") to provide health and pharmaceutical coverage to its employees. GatorCare Health Management Corporation, Inc. ("GCHMC"), a Florida not-for-profit corporation, was incorporated to coordinate and facilitate the management of GatorCare. Funding amounts collected by GCHMC are determined by the level of benefits coverage selected by each employee and to cover administrative costs of the plan. Cash held by GCHMC is largely restricted for payments of self-insured health and pharmacy claims of Shands and the related party employers, with the remaining cash available to cover the administrative functions of GCHMC. UFHCF participates in a separate self-insured 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, 2021 were approximately $112,276,000.

12. Commitments and Contingencies (continued)

Workers' Compensation Insurance

STHC and UFHCF are self-insured for workers' compensation up to $750,000 and $500,000, respectively, per occurrence for the year ended June 30, 2021. 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, 2021 was approximately $2,469,000.

Litigation

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

Other Industry Risks

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

13. Transactions with Related Parties

Shands has various agreements for services provided by UF in support of its health science colleges, including physician services, utilities, and various other services. Expenses related to these agreements were approximately $280,339,000 for the year ended June 30, 2021. At June 30, 2021, approximately $24,045,000 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.

13. Transactions with Related Parties (continued)

Shands provides contracted services at cost to UF in support of its health science colleges, including nonphysician medical professional services, telephone communication, and various other services. The amount for these contracted services was approximately $140,455,000 for the year ended June 30, 2021. At June 30, 2021, approximately $17,100,000 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, 2021 was approximately $15,699,000. At June 30, 2021, approximately $1,975,000 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 $4,078,000 for the year ended June 30, 2021.

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, 2021, the fair value of investments managed by UFICO on Shands' behalf was approximately $877,515,000. Investment management fees of approximately $1,139,000 were incurred for the year ended June 30, 2021. At June 30, 2021, approximately $412,000 of deferred fees was owed to UFICO and the short-term portion of approximately $90,000 is included in accounts payable and accrued expenses, and the long-term portion of approximately $322,000 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 for these contracted services was approximately $5,028,000 for the year ended June 30, 2021. At June 30, 2021, approximately $425,000 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 $538,000 for the year ended June 30, 2021.

13. Transactions with Related Parties (continued)

At June 30, 2021, Shands had a note receivable of approximately $12,384,000 due from SJMC. Shands receives quarterly payments of approximately $402,000, including interest of 4.5%. The note matures on October 1, 2030. The current portion of the note receivable of approximately $1,070,000 at June 30, 2021 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 $11,314,000 at June 30, 2021 is included in other assets in the accompanying consolidated basic statement of net position.

GCHMC collects funds from Shands to pay health and pharmaceutical claims and expenses for eligible employees. GCHMC pays the health and pharmacy claims on behalf of Shands. Funds provided by Shands to GCHMC for the year ended June 30, 2021 were approximately $102,664,000. At June 30, 2021, approximately $13,350,000 was due from GCHMC and is included in other assets in the accompanying consolidated basic statement of net position.

Shands provides administrative, payroll and accounts payable services to GCHMC. The amount for these contracted services for the year ended June 30, 2021 was approximately $1,383,000. At June 30, 2021, approximately $556,000 was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

Shands and the University of Florida Development Corporation ("UFDC") were previously members in Innovation Square, LLC ("Innovation Square"), a planned mixed-use research neighborhood that advances the national and global profile of UF with Shands and the local biotech industry. Shands' interest in Innovation Square resulted from assets transferred to Innovation Square, net of amounts received from UFDC. Shands subsequently 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, 2021, a receivable of approximately $4,865,000 was recorded in other assets in the accompanying consolidated basic statement of net position.

Shands leases medical space from Innovation Square. Expenses associated with the leased space were approximately $176,000 for the year ended June 30, 2021.

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. In June 2021, Shands received full payment for the balance of the receivable.

14. Concentrations of Credit Risk

Shands grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The composition of receivables from third-party payors at June 30, 2021, is as follows:

Medicare (includes HMOs)	32.4%
Medicaid (includes HMOs)	10.9%
Blue Cross	21.9%
Commercial	5.3%
Managed Care	24.0%
Other payors	5.5%
	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 $187,836,000 as of June 30, 2021. Management does not anticipate nonperformance risk by the financial institutions.

15. Major Component Unit Information

The following table presents the condensed consolidating statement of net position of STHC's major component units as of June 30, 2021:

(in thousands of dollars)	Shands (Excluding UFHL and UFHV)	UFHL	UFHV	Total
Cash and cash equivalents	$ 58,362	$ 111,159	$ 16,766	$ 186,287
Short-term investments	209,710	–	–	209,710
Other current assets	401,237	37,908	27,255	466,400
Capital assets, net	1,113,639	103,574	153,058	1,370,271
Other assets	1,098,528	201,476	72,712	1,372,716
Total assets	2,881,476	454,117	269,791	3,605,384
Deferred outflows of resources	95,711	2,288	7,140	105,139
Current liabilities	473,701	67,369	45,919	586,989
Long-term liabilities	1,001,510	47,512	139,296	1,188,318
Total liabilities	1,475,211	114,881	185,215	1,775,307
Deferred inflows of resources	49,697	–	–	49,697
Net position				
Net investment in capital assets	210,645	70,255	30,216	311,116
Restricted				
Nonexpendable	986	–	–	986
Expendable	4,248	–	–	4,248
Unrestricted	1,236,400	271,269	61,500	1,569,169
Total net position	$ 1,452,279	$ 341,524	$ 91,716	$ 1,885,519

15. Major Component Unit Information (continued)

The following table presents the condensed consolidating statement of revenues, expenses, and changes in net position of STHC's major component units as of June 30, 2021:

(in thousands of dollars)	Shands (Excluding UFHL and UFHV)	UFHL	UFHV	Total
Net patient service revenue	$ 1,785,332	$ 229,108	$ 173,643	$ 2,188,083
Other operating revenue	39,639	5,897	1,654	47,190
Total operating revenues	1,824,971	235,005	175,297	2,235,273
Operating expenses	1,749,353	228,717	172,445	2,150,515
Operating income	75,618	6,288	2,852	84,758
Nonoperating revenues (expenses), net	111,123	33,743	(706)	144,160
Excess of revenues over expenses	186,741	40,031	2,146	228,918
Other changes in net position				
Capital contributions	1,415	–	–	1,415
Other changes in net position	648	2	18	668
Increase in net position	188,804	40,033	2,164	231,001
Net position				
Beginning of year	1,263,475	301,491	89,552	1,654,518
End of year	$ 1,452,279	$ 341,524	$ 91,716	$ 1,885,519

The following table presents the condensed consolidating statement of cash flows of STHC's major component units as of June 30, 2021:

(in thousands of dollars)	Shands (Excluding UFHL and UFHV)	UFHL	UFHV	Total
Net cash provided by (used in)				
Operating activities	$ 132,157	$ 25,583	$ 15,033	$ 172,773
Noncapital financing activities	9,759	1,159	3,280	14,198
Capital and related financing activities	(99,102)	(12,283)	(16,463)	(127,848)
Investing activities	(107,905)	3,301	(1,771)	(106,375)
Net increase (decrease) in cash and cash equivalents	(65,091)	17,760	79	(47,252)
Cash and cash equivalents				
Beginning of year	123,453	93,399	16,687	233,539
End of year	$ 58,362	$ 111,159	$ 16,766	$ 186,287

16. COVID-19 Pandemic

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

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills which have provided certain financial benefits to Shands. Principal among these was the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted on March 27, 2020. The CARES Act authorized $100 billion in direct funding to hospitals and other healthcare providers from Provider Relief Funds, and provided other financial benefits, including the expansion of the Medicare Accelerated and Advance Payment Program. Under the CARES Act in fiscal year 2020, Shands received approximately $42,173,000 as part of general distributions from the Provider Relief Funds. In fiscal year 2021, Shands received an additional $4,553,000 recorded as grant revenue within federal and state appropriations in the accompanying consolidated basic statement of revenues, expenses and changes in net position. In fiscal year 2020, Shands also received approximately $229,237,000 as part of the expanded Accelerated and Advance Payment Program under the CARES Act. As of June 30, 2021, Shands has repaid approximately $30,655,000 of Medicare advances. Based on the repayment terms, management estimates that as of June 30, 2021, approximately, $166,903,000 is expected to be repaid within one year and as such, is recorded as Medicare advances, current portion and included in current liabilities in the consolidated basic statement of net position. The remaining balance of approximately $31,679,000 is recorded as Medicare advances, less current portion and is included in long-term liabilities in the consolidated basic statement of net position.

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

17. Subsequent Events

Shands has assessed the impact of subsequent events through September 21, 2021, the date the consolidated basic financial statements were available to be issued, and has concluded that there were no events that require adjustment to the consolidated basic financial statements or disclosure in the notes to the consolidated basic financial statements.

Required Supplementary Information

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Shands HealthCare Pension Plan II

June 30, 2014 Through June 30, 2021

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

Notes to Schedule

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

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

Changes in assumptions 2021:

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

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

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

Changes in assumptions 2020:

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

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

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

Shands HealthCare Pension Plan II

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)

Shands HealthCare Pension Plan II

July 1, 2013 Through June 30, 2021

(in thousands of dollars)	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Contributions in relation to the actuarially determined contribution	16,210	17,529	25,346	29,279	29,036	21,863	23,736	35,757
Contribution excess	$ (16,210)	$ (17,529)	$ (25,346)	$ (29,279)	$ (29,036)	$ (21,863)	$ (23,736)	$ (35,757)

Notes to Schedule

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

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

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

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

	2021	2020	2019	2018	2017	2016	2015
Valuation date	July 1, 2020	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	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	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%	2.00%	2.50%
Discount rates	PPA segmented yield curve rates of 3.64% for the first 5 years, 5.21% for the next 15 years, and 5.94% thereafter	PPA segmented yield curve rates of 3.74% for the first 5 years, 5.35% for the next 15 years, and 6.11% thereafter	PPA segmented yield curve rates of 3.92% for the first 5 years, 5.52% for the next 15 years, and 6.29% thereafter	PPA segmented yield curve rates of 4.16% for the first 5 years, 5.72% for the next 15 years, and 6.48% thereafter	6.50%	6.50%	7.25%
Salary increase	N/A	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	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-2018.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2017.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2016.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2000 mortality tables and projected with improvement to the valuation year plus 7, and 15 years based on Scale AA.	RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP-2016 mortality improvement tables.	RP-2014 mortality tables with future mortality improvement that follows the Mercer Modified MP-2014 mortality improvement scale.	RP-2000 Healthy Annuitant Mortality Tables projected with mortality improvement to the valuation year plus 7 and 15 years based on Scale AA.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Shands HealthCare Pension Plan II

June 30, 2021

(in thousands of dollars)

	2021
Total pension liability:	
Service cost	$ –
Interest	52,050
Changes of benefit terms	–
Difference between expected and actual experience	(819)
Benefit payments	(55,663)
Changes in assumptions	93,520
Net change in total pension liability	89,088
Total pension liability – beginning	881,120
Total pension liability – ending (a)	970,208
Plan fiduciary net position:	
Employer contributions	16,832
Net investment income	238,275
Benefit payments	(55,663)
Administrative expense	(5,714)
Net change in plan fiduciary net position	193,730
Plan fiduciary net position – beginning	996,531
Plan fiduciary net position – ending (b)	1,190,261
Net pension (asset) liability – ending (a)-(b)	$ (220,053)
Plan fiduciary net position as a percentage of total pension liability	122.7%

Notes to Schedule

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

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

Changes in assumptions 2021:

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Schedule of Plan Contributions (Unaudited)

Shands HealthCare Pension Plan II

June 30, 2021

(in thousands of dollars)	**2021**
Actuarially determined contribution	$ –
Contributions in relation to the actuarially determined contribution	16,832
Contribution excess	$ (16,832)

Notes to Schedule

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

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Schedule of Plan Investment Returns (Unaudited)

Shands HealthCare Pension Plan II

June 30, 2021

	2021
Annual money-weighted rate of return, net of investment expense	24.5%

Notes to Schedule

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

Supplementary Consolidating Information

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidating Basic Statement of Net Position

June 30, 2021

(in thousands of dollars)	UF Health Shands Hospital Division	UF Health Shands Obligated Group Other	UF Health Shands Obligated Group	UF Health Shands Other	Total UF Health Shands	UF Health Central Florida Obligated Group	UF Health Central Florida Other	Total UF Health Central Florida	Consolidated Total
Assets									
Current assets									
Cash and cash equivalents	$ 37,858	$ 855	$ 38,713	$ 15,945	$ 54,658	$ 129,159	$ 2,470	$ 131,629	$ 186,287
Short-term investments	209,642	–	209,642	68	209,710	–	–	–	209,710
Patient accounts receivable, net	269,356	3,536	272,892	1,170	274,062	46,063	236	46,299	320,361
Inventories	45,428	51	45,479	–	45,479	12,960	34	12,994	58,473
Prepaid expenses and other current assets	80,261	142	80,403	757	81,160	6,141	265	6,406	87,566
Total current assets	642,545	4,584	647,129	17,940	665,069	194,323	3,005	197,328	862,397
Assets whose use is limited	877,447	–	877,447	–	877,447	237,926	4,800	242,726	1,120,173
Assets whose use is restricted	45,763	–	45,763	–	45,763	12,874	2,740	15,614	61,377
Capital assets, net	1,064,183	47,272	1,111,455	6	1,111,461	257,242	1,568	258,810	1,370,271
Due from (to) affiliates, net	9,452	–	9,452	(7,701)	1,751	4,372	(6,123)	(1,751)	–
Other assets	170,214	–	170,214	1	170,215	20,542	409	20,951	191,166
Total assets	2,809,604	51,856	2,861,460	10,246	2,871,706	727,279	6,399	733,678	3,605,384
Deferred outflows of resources									
Accumulated decrease in fair value of hedging derivatives	27,348	–	27,348	–	27,348	8,734	–	8,734	36,082
Deferred loss on debt refunding	24,881	–	24,881	–	24,881	694	–	694	25,575
Deferred outflows on pension	43,482	–	43,482	–	43,482	–	–	–	43,482
Total deferred outflows of resources	95,711	–	95,711	–	95,711	9,428	–	9,428	105,139
Liabilities									
Current liabilities									
Long-term debt, current portion	17,321	–	17,321	–	17,321	7,077	–	7,077	24,398
Capital lease obligations, current portion	642	149	791	–	791	–	–	–	791
Accounts payable and accrued expenses	140,308	541	140,849	4,956	145,805	39,797	271	40,068	185,873
Accrued salaries and leave payable	80,701	12	80,713	69	80,782	13,737	–	13,737	94,519
Estimated third-party payor settlements	104,078	–	104,078	–	104,078	10,427	–	10,427	114,505
Medicare advances, current portion	125,148	–	125,148	–	125,148	41,755	–	41,755	166,903
Total current liabilities	468,198	702	468,900	5,025	473,925	112,793	271	113,064	586,989
Long-term liabilities									
Long-term debt, less current portion	934,354	–	934,354	–	934,354	149,778	–	149,778	1,084,132
Capital lease obligations, less current portion	4,262	732	4,994	–	4,994	–	–	–	4,994
Medicare advances, less current portion	11,913	–	11,913	–	11,913	19,766	–	19,766	31,679
Other liabilities	50,243	–	50,243	5	50,248	17,265	–	17,265	67,513
Total long-term liabilities	1,000,772	732	1,001,504	5	1,001,509	186,809	–	186,809	1,188,318
Total liabilities	1,468,970	1,434	1,470,404	5,030	1,475,434	299,602	271	299,873	1,775,307
Deferred inflows of resources									
Deferred gain on debt refunding	1,917	–	1,917	–	1,917	–	–	–	1,917
Deferred inflows on pension	47,780	–	47,780	–	47,780	–	–	–	47,780
Total deferred inflows of resources	49,697	–	49,697	–	49,697	–	–	–	49,697
Net position									
Net investment in capital assets	162,070	46,391	208,461	6	208,467	101,081	1,568	102,649	311,116
Restricted									
Nonexpendable	986	–	986	–	986	–	–	–	986
Expendable	1,461	–	1,461	265	1,726	–	2,522	2,522	4,248
Unrestricted	1,222,131	4,031	1,226,162	4,945	1,231,107	336,024	2,038	338,062	1,569,169
Total net position	$ 1,386,648	$ 50,422	$ 1,437,070	$ 5,216	$ 1,442,286	$ 437,105	$ 6,128	$ 443,233	$ 1,885,519

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, 2021

(in thousands of dollars)	**UF Health Shands Hospital Division**	**UF Health Shands Obligated Group Other**	**UF Health Shands Obligated Group**	**UF Health Shands Other**	**Total UF Health Shands**	**UF Health Central Florida Obligated Group**	**UF Health Central Florida Other**	**Total UF Health Central Florida**	**Consolidated Total**
Operating revenues									
Net patient service revenue, net of provision for bad debts	$ 1,768,070	$ 8,348	$ 1,776,418	$ 8,915	$ 1,785,333	$ 402,750	$ –	$ 402,750	$ 2,188,083
Other operating revenue	25,082	5,110	30,192	4,494	34,686	7,553	4,951	12,504	47,190
Total operating revenues	1,793,152	13,458	1,806,610	13,409	1,820,019	410,303	4,951	415,254	2,235,273
Operating expenses									
Salaries and benefits	732,515	7,784	740,299	4,638	744,937	195,635	2,727	198,362	943,299
Supplies and services	901,442	6,551	907,993	6,630	914,623	177,276	2,394	179,670	1,094,293
Depreciation and amortization	82,688	1,777	84,465	2	84,467	28,313	143	28,456	112,923
Total operating expenses	1,716,645	16,112	1,732,757	11,270	1,744,027	401,224	5,264	406,488	2,150,515
Operating income (loss)	76,507	(2,654)	73,853	2,139	75,992	9,079	(313)	8,766	84,758
Nonoperating revenues (expenses)									
Federal grants and state appropriations	7,182	–	7,182	–	7,182	4,421	–	4,421	11,603
Interest expense	(36,771)	(40)	(36,811)	–	(36,811)	(5,647)	–	(5,647)	(42,458)
Net investment income, including change in fair value	133,775	–	133,775	14	133,789	41,636	890	42,526	176,315
Loss on disposal of capital assets, net	(669)	–	(669)	–	(669)	(49)	(5)	(54)	(723)
Other nonoperating revenues (expenses), net	7,098	39	7,137	88	7,225	(7,803)	1	(7,802)	(577)
Total nonoperating revenues (expenses), net	110,615	(1)	110,614	102	110,716	32,558	886	33,444	144,160
Excess of revenues over expenses before transfers, capital contributions, and other changes in net position	187,122	(2,655)	184,467	2,241	186,708	41,637	573	42,210	228,918
Transfers	(49,205)	51,350	2,145	(2,145)	–	–	–	–	–
Capital contributions	1,415	–	1,415	–	1,415	–	–	–	1,415
Other changes in net position	244	–	244	32	276	19	373	392	668
Increase in net position	139,576	48,695	188,271	128	188,399	41,656	946	42,602	231,001
Net position									
Beginning of year	1,247,072	1,727	1,248,799	5,088	1,253,887	395,449	5,182	400,631	1,654,518
End of year	$ 1,386,648	$ 50,422	$ 1,437,070	$ 5,216	$ 1,442,286	$ 437,105	$ 6,128	$ 443,233	$ 1,885,519

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, 2021, and for the year then ended, in conformity with accounting principles generally accepted in the United States, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position and the changes in financial position of the individual companies and is not a required part of the consolidated basic financial statements.

Supplementary Consolidated Statement of Cash Flows for the UFHCF Obligated Group

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Statement of Cash Flows for the UFHCF Obligated Group

(in thousands of dollars)

Year Ended June 30, 2021

Cash flows from operating activities	
Cash received from patients and third-party payors	$ 393,317
Other receipts from operations	7,553
Payments for salaries and benefits	(192,291)
Payments to suppliers and vendors	(167,974)
Net cash provided by operating activities	40,605
Cash flows from noncapital financing activities	
Federal grants and state appropriations	4,421
Net cash provided by noncapital financing activities	4,421
Cash flows from capital and related financing activities	
Purchase of capital assets	(16,615)
Proceeds from sale of capital assets	499
Principal payments on long-term debt	(6,485)
Interest payments	(6,144)
Net cash used in capital and related financing activities	(28,745)
Cash flows from investing activities	
Distributions from unconsolidated affiliates	900
Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted	(14,205)
Sale of short-term investments, assets whose use is limited, and assets whose use is restricted	14,274
Other investing activities	590
Net cash provided by investing activities	1,559
Net increase in cash and cash equivalents	17,840
Cash and cash equivalents	
Beginning of year	111,319
End of year	$ 129,159

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Statement of Cash Flows for the UFHCF Obligated Group (continued)

(in thousands of dollars)

Year Ended June 30, 2021

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 9,079
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	28,313
Provision for bad debts	23,479
Changes in:	
Patient accounts receivable	(29,649)
Inventories	512
Prepaid expenses and other current assets	885
Other assets	35
Due from affiliates, net	1,136
Accounts payable and accrued expenses	9,323
Accrued salaries and leave payable	3,345
Estimated third-party payor settlements	2,897
Medicare advances	(6,160)
Other liabilities	(2,590)
Total adjustments	31,526
Net cash provided by operating activities	$ 40,605
Supplemental noncash investing, capital and financing activities	
Accrued purchases of capital assets	$ 890

Accompanying Internal Control Over Financial Reporting and Compliance Report

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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the fiduciary activities of Shands Teaching Hospital and Clinics, Inc. and subsidiaries (the "Company"), a component unit of the University of Florida, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the consolidated basic financial statements as listed in the table of contents, and have issued our report thereon dated September 21, 2021.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

September 21, 2021