

CONSOLIDATED BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
OTHER SUPPLEMENTARY INFORMATION

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Year Ended June 30, 2023
With Report of Independent Auditors

Ernst & Young LLP



Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Year Ended June 30, 2023

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries (the Company), a component unit of the University of Florida, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Company at June 30, 2023, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (unaudited) on pages 5 through 19, the schedule of STHC's proportionate share of the net pension (asset) liability (unaudited) on page 90, the schedule of employer contributions (unaudited) on page 93, the schedule of changes in the net pension (asset) liability (unaudited) on page 95, 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 financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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 financial statements. The supplementary 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 pages 102 through 103 are presented for purposes of additional analysis and are not required to be part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary consolidating information and the supplementary statement of cash flows for the UFHCF obligated group are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2023 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 26, 2023

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2023

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, 2023 with comparative information as of and for the year ended June 30, 2022. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements.

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"), a community health care provider in central Florida, pursuant to which STHC became the sole corporate member of CFH. CFH manages and operates health care facilities and various related entities primarily in Lake and Sumter Counties ("UF Health Central Florida").

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 1,054-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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

- **UF Health Shands Psychiatric Hospital** is a psychiatric and substance abuse facility located in Gainesville, licensed to operate 81 beds, of which 63 are psychiatric and 18 are substance abuse.
- **UF Health Shands HomeCare** is a hospital-based home care agency providing home care services to residents of north central Florida.
- **Hotel Eleo at the University of Florida** is a 173-room boutique hotel located on the campus of UF Health Shands Hospital.
- **Shands Recovery, LLC d/b/a UF Health Florida Recovery Center** provides outpatient and residential treatment for alcohol and drug abuse, with on-site leased housing for certain programs. STHC is the sole member of Shands Recovery, LLC.
- **Elder Care of Alachua County, Inc. ("Elder Care")** is a Florida not-for-profit corporation providing social and health care related services to the elderly in Alachua County. STHC is the sole corporate member of Elder Care.
- **Southeastern Healthcare Foundation, Inc. ("Southeastern")** is a Florida not-for-profit corporation providing charitable aid to UF and Shands. STHC is the sole corporate member of Southeastern.
- **Shands Auxiliary, Inc. ("Auxiliary")** is a Florida not-for-profit corporation created for the purpose of supporting, promoting, and encouraging certain fundraising events for the benefit of charitable organizations and programs. Southeastern is the sole corporate member of Auxiliary.

UF Health Central Florida

- **Central Florida Health, Inc. d/b/a UF Health Central Florida ("UFHCF")** is a not-for-profit community health care provider located in central Florida serving as the parent company to various health care related entities. STHC is the sole corporate member of UFHCF.
- **Leesburg Regional Medical Center, Inc. d/b/a UF Health Leesburg Hospital ("UFHL")** is a 330-bed acute care hospital located in Leesburg, Florida. UFHCF is the sole corporate member of UFHL.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

- **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.

Shands' Partially-Owned, Unconsolidated Affiliates

- STHC has a 49.9% minority interest in **Shands/Solantic Joint Venture, LLC**, which owns four walk-in urgent care centers located in north central Florida. Solantic of Orlando, LLC owns the remaining 50.1% majority interest and manages the facilities.
- STHC has a 49% minority interest in **Select Specialty Hospital – Gainesville, LLC (“SSH”)**. Select Specialty Hospitals, Inc. (“Select”), an affiliate of Select Medical Corporation (“SMC”), owns the remaining 51% majority interest. SSH operates a 48-bed long-term acute care hospital located within STHC's primary hospital facility, which SSH leases from STHC. Select Unit Management, Inc., a wholly owned subsidiary of SMC, provides management services to SSH.
- STHC has a 49% minority interest in **Archer Rehabilitation, LLC (“Archer Rehab”)**. Select owns the remaining 51% majority interest. Archer Rehab operates a 60-bed rehabilitation facility located approximately one mile from STHC's main hospital campus.
- STHC has a 50% interest in **UF Health South Central, LLC (“South Central”)**. Florida Clinical Practice Association, Inc. (“FCPA”), a component unit of UF, owns the remaining 50% interest. South Central owns property located in Marion County, consisting of two medical office buildings, two vacant lots, and certain medical equipment. South Central

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

leases the medical office buildings and equipment to FCPA, which operates various clinical practices therein.

- STHC entered into a Management Services, Governance, and Contribution Agreement (the "Deltona Agreement") with Halifax Hospital Medical Center ("Halifax"), Halifax Management System, Inc. ("HMS") and various affiliated entities, including Medical Center of Deltona, Inc., which operates **Halifax Health | UF Health Medical Center of Deltona ("MCD")**, a 43-bed acute care hospital located in Deltona, Florida. Under the Deltona Agreement, Halifax and STHC will: (i) provide management services to operate MCD, (ii) provide equal capital funding contributions, and (iii) equally receive MCD profits and distributions. Additionally, under the Deltona Agreement, STHC, HMS, and certain Halifax affiliates agreed to individually provide joint and several liability guarantees for obligations arising under a Master Securities Lending Agreement. STHC's total aggregate liability under the guaranty shall not exceed 50% of the total amount guaranteed by STHC and the other parties.
- UFHL has a 49% minority interest in **Lake Medical Imaging and Breast Center at The Villages, LLC d/b/a Lake Medical Imaging and Vascular Institute ("LMI")**, which operates four full service imaging centers located in The Villages® and Leesburg. Orange Blossom Gardens Radiology II, LLC is the majority partner and manages the operations of the imaging centers.
- UFHL and UFHV have a combined 50% interest in **Central Florida Cardiovascular Co-Management Company, LLC**, which provides management services to the cardiovascular service lines of UFHL and UFHV. The remaining interests are owned by independent physician partners.
- UFHCF has an 11.1% minority interest in **LeeSar, Inc.**, 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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

(assets) and the obligations to creditors (liabilities). Assets, liabilities, and deferred activity are presented in a classified format, which distinguishes between their current and long-term time frame. The difference between the assets plus deferred outflows and liabilities plus deferred inflows is reported as "net position."

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

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

Financial Analysis of Shands

Statements of Net Position

The consolidated basic statements of net position present the financial position of Shands as of June 30, 2023 and 2022 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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

The following table presents Shands' condensed consolidated basic statements of net position as of June 30, 2023 and 2022:

(in thousands of dollars)

	2023	2022
Cash and cash equivalents	\$ 32,700	\$ 109,244
Short-term investments	49,251	155,540
Other current assets	547,946	495,164
Capital assets, net	1,497,894	1,409,203
Other assets	1,294,498	1,374,764
Total assets	3,422,289	3,543,915
Deferred outflows of resources	197,825	130,189
Current liabilities	445,958	507,224
Long-term liabilities	1,102,594	1,113,119
Total liabilities	1,548,552	1,620,343
Deferred inflows of resources	83,955	185,659
Net position:		
Net investment in capital assets	385,248	315,892
Restricted:		
Nonexpendable	2,260	2,150
Expendable	2,003	1,904
Unrestricted	1,598,096	1,548,156
Total net position	\$ 1,987,607	\$ 1,868,102

Assets and Deferred Outflows of Resources

Cash and cash equivalents decreased by \$76.5 million, or 70.1%. Significant uses of cash included \$182.2 million in purchases of capital assets and \$69.4 million in principal and interest payments on outstanding debt and lease and subscription obligations. Significant sources of cash included \$70.9 million in sales (net of purchases) of short-term investments, assets whose use is limited, and assets whose use is restricted, \$67.6 million in cash provided by operating activities,

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

\$10.3 million in reimbursement from trustee-held funds, \$7.4 million in donations and pledge receipts, \$7.1 million in state appropriations received, and \$5.3 million in capital contributions. Short-term investments decreased by \$106.3 million, or 68.3%, due to the transfer of short-term investments to assets whose use is limited.

Other current assets, including net patient accounts receivable, inventories, and prepaid expenses and other current assets, increased by \$52.8 million, or 10.7%. Patient accounts receivable, net increased by \$13.0 million due to increased net patient service revenue from patient care activities. Prepaid expenses and other current assets increased by \$39.3 million primarily due to the timing of the receipt of payments from State of Florida supplemental Medicaid programs (amounts due under these programs increased by \$8.6 million), the timing of payments due from related parties for capital projects (\$16.8 million), and the timing of payments made on prepaid contracts and received on other non-patient accounts receivable (\$13.9 million). Inventory balances increased by \$0.5 million.

Capital assets, net increased by \$88.7 million, or 6.3%, reflecting purchases of capital assets of \$182.2 million, the addition of \$16.7 million in right-to-use assets recognized due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB No. 96"), the addition of \$18.5 million in right-to-use assets under lease and subscription arrangements, and a \$1.4 million increase in retainage and construction payables, partially offset by depreciation and amortization expense of \$123.6 million, and a loss on impairment of capital assets of \$6.5 million.

Other assets decreased by \$80.3 million, or 5.8%, due to a \$177.4 million decrease in other assets and an \$8.5 million decrease in assets whose use is restricted, partially offset by a \$105.6 million increase in assets whose use is limited. The decrease in other assets is primarily due to a \$179.7 million decrease in the pension asset associated with the defined benefit ("DB") pension plan. The decrease in assets whose use is restricted was primarily due to \$10.3 million in reimbursement from a trustee-held project fund. The increase in assets whose use is limited is primarily due to the net transfer of \$40.0 million from cash and cash equivalents and short-term investments and \$65.6 million in investment gains (including change in fair value of investments) in Shands' pooled investment program and certain direct long-term investments.

Deferred outflows of resources increased by \$67.6 million, or 52.0%, primarily due to a \$77.4 million increase in deferred outflows on pension, partially offset by an \$8.2 million decrease in the accumulated decrease in fair value of hedging derivatives. The increase in deferred outflows on pension is due to the net differences in projected and actual earnings on plan investments (\$105.4 million) and differences in projected and actual actuarial experience (\$6.3 million), partially offset by the impact of changes in actuarial assumptions (\$33.6 million) and the net

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

decrease in plan contribution levels (\$0.7 million). The change in the accumulated decrease in fair value of hedging derivatives is due to the net change in the fair value of certain interest rate swap contracts used as a hedge against changes in interest rates on certain variable rate debt instruments.

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities decreased by \$61.3 million, or 12.1%, primarily due to a \$39.7 million decrease in accounts payable and accrued expenses, a \$37.4 million decrease in Medicare advances, and a \$12.5 million decrease in accrued salaries and leave payable, partially offset by a \$22.6 million increase in estimated third-party payor settlements and a \$5.4 million increase in lease and subscription obligations, current portion. The decrease in accounts payable and accrued expenses is primarily due to a \$43.8 million decrease in accounts payable due to the timing of the vendor invoice and payment cycles and a \$0.8 million decrease in interest payable due to the timing of interest payments on long-term debt, partially offset by a \$3.5 million increase in patient credit balances and a \$1.4 million increase in retainage and construction payables. The decrease in Medicare advances is due to the repayment of Medicare advances received due to COVID-19 (see "COVID-19 Pandemic"). The decrease in accrued salaries and leave payable is primarily due to the timing of the payroll payment cycle. The increase in estimated third-party payor settlements is due to settlement payment activity to/from certain third-party government payors and changes in settlement estimates. The increase in lease and subscription obligations, current portion, is due to \$6.1 million in current portion of subscription obligations recorded due to the adoption of GASB No. 96, partially offset by changes in current portion of existing lease obligations.

Long-term liabilities decreased by \$10.5 million, or 0.9%, primarily due to a \$25.1 million decrease in long-term debt, less current portion and an \$11.0 million decrease in other liabilities, largely offset by a \$25.6 million increase in lease and subscription obligations, less current portion. The decrease in long-term debt, less current portion, is primarily due to principal payments of \$19.6 million and amortization of bond premium of \$5.1 million. The decrease in other liabilities is primarily due to an \$8.2 million change in the fair value of interest rate swaps in a liability position and used as a hedge against changes in interest rates on certain variable rate debt instruments and a \$3.4 million decrease in the malpractice liability. The increase in lease and subscription obligations, less current portion, is primarily due to the recognition of \$16.7 million in subscription liabilities due to the adoption of GASB No. 96 and the addition of \$18.5 million in new lease and subscription obligations, partially offset by \$4.2 million in principal payments on lease and subscription obligations and a \$5.4 million increase in current portion of lease and subscription liabilities.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

Deferred inflows of resources decreased by \$101.7 million, or 54.8%, primarily due to a \$99.8 million decrease in deferred inflows on pension and a \$1.7 million decrease in deferred inflows on leases. The decrease in deferred inflows on pension is due to the net differences in projected and actual earnings on plan investments (\$147.2 million) and differences in projected and actual actuarial experience (\$0.5 million), partially offset by the impact of changes in actuarial assumptions (\$47.9 million). The decrease in deferred inflows on leases is due to the recognition of lease revenue.

Total net position increased by \$119.5 million, or 6.4%, primarily due to an excess of revenues over expenses of \$114.0 million and capital contributions of \$5.3 million.

Statements of Revenues, Expenses and Changes in Net Position

The following table presents Shands' condensed consolidated basic statements of revenues, expenses and changes in net position for the years ended June 30, 2023 and 2022:

(in thousands of dollars)

	2023	2022
Net patient service revenue	\$ 2,714,482	\$ 2,545,388
Other operating revenue	72,053	68,081
Total operating revenues	2,786,535	2,613,469
Operating expenses	2,713,805	2,436,472
Operating income	72,730	176,997
Nonoperating revenues (expenses), net	41,267	(195,471)
Excess (deficit) of revenues over expenses	113,997	(18,474)
 Other changes in net position:		
Capital contributions	5,298	2,210
Other changes in net position	210	(1,153)
Increase (decrease) in net position	119,505	(17,417)
 Net position:		
Beginning of year	1,868,102	1,885,519
End of year	\$ 1,987,607	\$ 1,868,102

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

Operating Revenues

Total operating revenues increased by \$173.1 million, or 6.6%, due to a \$169.1 million increase in net patient service revenue and a \$4.0 million increase in other operating revenue. The increase in net patient service revenue is primarily due to a \$160.6 million increase in revenue from direct patient care activities and an \$8.5 million increase in State of Florida supplemental Medicaid revenue. The increase in revenue from direct patient care activities (which reflects a 7.5% increase in net patient service revenue, excluding Medicaid supplemental revenue) is due to increased inpatient and outpatient volume and increased payor payment rates. Inpatient admissions (including observation admissions) increased by 0.6% and outpatient visits (including emergency room and trauma visits) increased by 6.0%. The increase in Medicaid supplemental revenue is primarily due to increased funding for indirect medical education ("IME").

Operating Expenses

Operating expenses increased by \$277.3 million, or 11.4%, due to a \$161.1 million (15.4%) increase in salaries and benefits and a \$116.8 million (9.2%) increase in supplies and services, partially offset by a \$0.6 million (0.5%) decrease in depreciation and amortization. The increase in salaries and benefits is due to a \$107.6 million increase in salaries and wages and a \$53.5 million increase in employee benefits. The increase in salaries and wages is due to an 11.4% increase in average wage rates (\$87.7 million) due to certain market-based wage adjustments and incentive payments implemented to address a national shortage of skilled nurses and other health care professionals, an increase in Shands' minimum wage to \$15.00 per hour, and a 4.6% increase in non-contract labor hours (\$33.7 million), partially offset by a decrease in contract labor (\$13.6 million). The increase in employee benefits is primarily due to a \$39.8 million increase in DB pension plan expense and a \$13.7 million increase in all other employee benefits. The increase in supplies and services is primarily due to a \$60.9 million increase in supplies, a \$29.0 million increase in purchased services, a \$14.6 million increase in professional fees, a \$6.2 million increase in other direct costs, and a \$5.2 million increase in utilities. The increase in supplies is due to inflationary cost increases and increased volume. The increase in purchased services is primarily driven by increased repairs and maintenance, software maintenance, and outside lab services. The increase in professional fees is primarily due to increased payments in support of UF and its health science colleges. The increase in other direct costs is primarily related to an increase in expenditures incurred in connection with State of Florida supplemental Medicaid programs. The increase in utilities is due to inflationary cost increases. The decrease in depreciation and amortization expense is due to a \$3.7 million decrease in depreciation and amortization of capital assets and right-to-use assets, largely offset by \$3.1 million in amortization of subscription-based information technology arrangements recorded due to the adoption of GASB No. 96.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

Nonoperating (Expenses) Revenues, Net

Nonoperating revenues (expenses), net increased by \$236.7 million (from \$195.5 million of nonoperating expenses, net for the year ended June 30, 2022 to \$41.3 million of nonoperating revenues, net for the year ended June 30, 2023), primarily due to a \$261.4 million increase in net investment income (loss) (including change in fair value of investments), partially offset by a \$20.9 million decrease in federal grants and state appropriations and a \$3.0 million decrease in other nonoperating (expenses) revenues, net. Investment performance increased from \$186.6 million of investment loss for the year ended June 30, 2022 to \$74.8 million of investment income for the year ended June 30, 2023. The increase in investment performance was driven by an improvement in the global financial markets compared to the prior period. The change in net investment income (loss) was primarily due to a \$250.9 million increase in the change in investment value of Shands' pooled investment funds and an \$11.5 million increase in the change in fair value of other direct investments, partially offset by a \$1.0 million decrease in investment income from other direct investments and other sources. The decrease in federal grants and state appropriations was due to a \$20.9 million decrease in Provider Relief Funds received (see "COVID-19 Pandemic"). The decrease in other nonoperating (expenses) revenues, net was primarily due to a \$6.5 million loss on impairment of capital assets.

Other Changes in Net Position

Other changes in net position increased by \$4.5 million due to a \$3.1 million increase in capital contributions, and a \$1.4 million increase in all other changes in net position.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

Patient Volumes

The following tables present the associated volumes of each facility on a comparative basis for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>	<u>Net Change</u>	<u>% Change</u>
Admissions (1)				
UF Health Shands Hospital	50,628	49,119	1,509	3.1%
UF Health Shands Psychiatric Hospital	3,792	3,749	43	1.1%
UF Health Leesburg Hospital	16,735	17,557	(822)	(4.7)%
UF Health The Villages [®] Hospital	15,631	15,860	(229)	(1.4)%
Total	<u>86,786</u>	<u>86,285</u>	<u>501</u>	<u>0.6%</u>
Outpatient Visits (2)				
UF Health Shands Hospital	1,165,884	1,103,051	62,833	5.7%
UF Health Shands Psychiatric Hospital	1,175	1,086	89	8.2%
UF Health Florida Recovery Center	26,689	26,765	(76)	(0.3)%
UF Health Leesburg Hospital	71,239	71,226	13	0.0%
UF Health The Villages [®] Hospital	72,616	59,555	13,061	21.9%
Total	<u>1,337,603</u>	<u>1,261,683</u>	<u>75,920</u>	<u>6.0%</u>

(1) Includes inpatient and observation admissions

(2) Includes outpatient visits, emergency room and trauma visits

Total admissions increased by 0.6%. Inpatient admissions increased by 1.8%, but observation admissions decreased by 5.9%. Total outpatient visits, including emergency room and trauma visits, increased by 6.0%. Emergency room and trauma visits increased by 5.2%, and outpatient visits, excluding emergency room and trauma visits, increased by 6.2%.

COVID-19 Pandemic

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

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 provided certain financial benefits to Shands. The following is a summary of the key benefits provided to Shands as part of the various stimulus funding packages passed by Congress:

- The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in March 2020, and authorized \$100 billion in direct funding to hospitals and other healthcare providers through the creation of a Provider Relief Fund (“PRF”). Congress then passed the Paycheck Protection Program and Health Care Enactment Act in April 2020, which increased the amount of the PRF to \$175 billion. This funding was intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and was not required to be repaid, provided recipients attested to and complied 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. Shands received \$67.6 million in general and targeted distributions from the PRF since the start of the pandemic including \$20.9 million in fiscal year 2022 (no PRF distributions were received in the current fiscal year). These distributions were recorded as grant revenue within federal grants and state appropriations in the consolidated basic statements of revenues, expenses and changes in net position in the fiscal year the funds were received.
- HHS released reporting requirements for the PRF, including guidance and clarification on eligible uses for funds received from the PRF, and has subsequently revised the reporting requirements at various times since the creation of the PRF. Based on the most recent guidance, recipients may use funds for health care related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and then for lost patient care revenue. Measurement dates for the use of funds vary based on the timing of the receipt of funds. Management is aware that funds received from the PRF are subject to audit, and certain amounts could be at risk of being repaid. However, based on the estimated financial impact of COVID-19 through June 30, 2023, management does not believe such repayment amounts, if any, would be material to the consolidated basic financial statements.
- The CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. In April 2020, Shands received Medicare advances totaling \$229.2 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. As of June 30, 2023, Shands has fully repaid all Medicare advances received.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

Debt Outstanding

As of June 30, 2023, Shands had \$1,058.7 million in long-term debt outstanding compared to \$1,083.4 million at June 30, 2022. Long-term debt is comprised of tax-exempt bond issues and taxable notes. 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, \$916.3 million is attributable to STHC's Obligated Group obligations compared to \$933.6 million at June 30, 2022. 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, \$142.4 million is attributable to UFHCF's Obligated Group obligations compared to \$149.8 million at June 30, 2022. 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, 74.3% 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.

Debt Guaranty

STHC entered into a Guaranty of Payment dated August 11, 2023 (the "Guaranty Agreement"), in favor of TD Bank, N.A. and The Toronto-Dominion Bank, whereby STHC agreed to guarantee the payment of the Guaranteed Obligations (as defined in the Guaranty Agreement). In general, the Guaranteed Obligations relate to certain tax-exempt bonds issued by the Alachua County Health Facilities Authority (the "Issuer") on behalf of FCPA, the faculty practice plan of the University of Florida College of Medicine and certain FCPA interest rate swap contracts (the "FCPA Hedging Contracts") related thereto. Specifically, the Guaranteed Obligations relate to the

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited) (continued)

Issuer's (i) Health Facilities Revenue Bond (Florida Clinical Practice Association, Inc. Project), Series 2022, (ii) Health Facilities Revenue Bond (Florida Clinical Practice Association, Inc. Project), Series 2019, and (iii) Health Facilities Revenue Bond (Florida Clinical Practice Association, Inc. Project), Series 2017 (collectively, the "Bonds"), and the FCPA Hedging Contracts. As of June 30, 2023, the combined outstanding principal on the Bonds was approximately \$70.9 million.

To evidence and secure its obligations under the Guaranty Agreement, STHC issued its "Obligated Group Note – FCPA Guaranty, Series 2023," pursuant to the Forty-Third Supplemental Master Trust Indenture (the "Forty-Third Supplemental Master Trust Indenture") dated as of August 1, 2023, between STHC and U.S. Bank Trust Company, National Association (successor to Wachovia Bank, National Association, successor by merger to First Union National Bank of Florida), a national banking association, as trustee.

The Guaranty Agreement and the Forty-Third Supplemental Master Trust Indenture include covenants and events of default that are more expansive than the Master Indenture (as defined in the Forty-Third Supplemental Master Trust Indenture).

Flagler Health+

Effective September 1, 2023, Shands completed the acquisition of Flagler Hospital, Inc. d/b/a Flagler Health+ ("Flagler"), a community health care provider in St. Augustine, Florida, pursuant to which Shands became the sole corporate member of Flagler. Flagler operates a 335-bed acute care hospital and is the sole corporate member or sole member of various health care-related organizations. As a result of the acquisition, the local Flagler Board of Directors is comprised of three members nominated by Flagler and four members nominated by Shands.

Credit Ratings

In December 2022, 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 January 2023, 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 December 2022, Standard & Poor's affirmed its previous underlying credit rating of A- and indicated a "Stable" outlook on all of UFHCF's Obligated Group's rated debt. In January 2023, Moody's Investors Service affirmed its previous underlying credit rating of A3 and indicated a "Stable" outlook on all of UFHCF's Obligated Group's rated debt.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Basic Statement of Net Position (Dollars in Thousands)

June 30, 2023

Assets

Current assets:

Cash and cash equivalents	\$	32,700
Short-term investments		49,251
Patient accounts receivable, net of allowance for uncollectibles of \$87,925		362,145
Inventories		62,226
Prepaid expenses and other current assets		123,575
Total current assets		629,897

Assets whose use is limited		1,150,606
Assets whose use is restricted		21,643
Capital assets, net		1,497,894
Other assets		122,249
Total assets		3,422,289

Deferred outflows of resources

Accumulated decrease in fair value of hedging derivatives		7,818
Deferred loss on debt refunding		22,379
Deferred outflows on pension		167,628
Total deferred outflows of resources		197,825

Liabilities

Current liabilities:

Long-term debt, current portion		25,051
Lease and subscription obligations, current portion		9,726
Accounts payable and accrued expenses		172,615
Accrued salaries and leave payable		82,429
Estimated third-party payor settlements		156,137
Total current liabilities		445,958

Long-term liabilities:

Long-term debt, less current portion		1,033,668
Lease and subscription obligations, less current portion		51,414
Other liabilities		17,512
Total long-term liabilities		1,102,594
Total liabilities		1,548,552

Deferred inflows of resources

Deferred inflows on pension		53,311
Deferred inflows on leases		29,134
Deferred gain on debt refunding		1,510
Total deferred inflows of resources		83,955

Net position

Net investment in capital assets		385,248
Restricted:		
Nonexpendable		2,260
Expendable		2,003
Unrestricted		1,598,096
Total net position		\$ 1,987,607

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
(Dollars in Thousands)

Year Ended June 30, 2023

Operating revenues

Net patient service revenue, net of provision for bad debts of \$245,085	\$ 2,714,482
Other operating revenue	72,053
Total operating revenues	2,786,535

Operating expenses

Salaries and benefits	1,208,840
Supplies and services	1,381,344
Depreciation and amortization	123,621
Total operating expenses	2,713,805
Operating income	72,730

Nonoperating revenues (expenses)

State appropriations	7,050
Interest expense	(41,073)
Net investment income, including change in fair value	74,768
Gain on disposal of capital assets, net	181
Other nonoperating revenues, net	341
Total nonoperating revenues, net	41,267
Excess of revenues over expenses before capital contributions and other changes in net position	113,997
Capital contributions	5,298
Other changes in net position	210
Increase in net position	119,505

Net position

Beginning of year	1,868,102
End of year	\$ 1,987,607

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 (Dollars in Thousands)

Year Ended June 30, 2023

Cash flows from operating activities

Cash received from patients and third-party payors	\$ 2,680,935
Other receipts from operations	63,910
Payments for salaries and benefits	(1,219,277)
Payments to suppliers and vendors	(1,457,969)
Net cash provided by operating activities	67,599

Cash flows from noncapital financing activities

State appropriations	7,050
Donations and pledge receipts	7,416
Other noncapital financing activities	(6,041)
Net cash provided by noncapital financing activities	8,425

Cash flows from capital and related financing activities

Purchase of capital assets	(182,200)
Proceeds from sale of capital assets	232
Principal payments on long-term debt	(19,565)
Principal payments on lease and subscription obligations	(4,252)
Interest payments	(45,579)
Capital contributions	5,298
Reimbursement from trustee-held project fund	10,251
Net cash used in capital and related financing activities	(235,815)

Cash flows from investing activities

Investment income received	2,390
Payments received on notes receivable	1,709
Distributions from unconsolidated affiliates	4,462
Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted	(655,062)
Sale of short-term investments, assets whose use is limited, and assets whose use is restricted	725,976
Other investing activities	3,772
Net cash provided by investing activities	83,247
Net decrease in cash and cash equivalents	(76,544)

Cash and cash equivalents

Beginning of year	109,244
End of year	\$ 32,700

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Basic Statement of Cash Flows (continued)
(Dollars in Thousands)

Year Ended June 30, 2023

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 72,730
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	123,621
Provision for bad debts	245,085
Changes in:	
Patient accounts receivable	(258,047)
Inventories	(544)
Prepaid expenses and other current assets	(38,893)
Other assets	93,954
Accounts payable and accrued expenses	(40,282)
Accrued salaries and leave payable	(12,525)
Estimated third-party payor settlements	22,600
Medicare advances	(37,428)
Other liabilities	(102,672)
Total adjustments	<u>(5,131)</u>
Net cash provided by operating activities	<u>\$ 67,599</u>

Supplemental noncash investing, capital and financing activities

Accrued purchases of capital assets	\$ 13,738
Amortization of lease and subscription asset	8,991
Amortization of lease receivable	4,513

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
(Dollars in Thousands)

June 30, 2023

Assets	
Cash	\$ 208
Receivables:	
Accounts receivable – sale of investments	26,453
Accrued interest and dividends	5,211
Total receivables	<u>31,664</u>
Investments:	
Interest bearing cash	4,257
U.S. government securities	201,203
Corporate debt instruments – preferred	104,206
Corporate debt instruments	138,660
Fixed income funds	153,744
Equity funds	250,320
Preferred and common stock	93,436
Private equity funds	9,840
Other investments	9,469
Total investments	<u>965,135</u>
Total assets	<u>997,007</u>
Liabilities	
Accounts payable – purchase of investments and dividend foreign taxes payable	81,228
Accrued expenses	679
Accounts payable – foreign currency contracts and other	102
Total liabilities	<u>82,009</u>
Net position restricted for pension benefits	<u>\$ 914,998</u>

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
(Dollars in Thousands)

Year Ended June 30, 2023

Additions

Net investment income	\$ 50,024
Employer contributions	16,194
Total additions	<u>66,218</u>

Deductions

Benefit payments	60,592
Investment expenses	2,055
PBGC insurance premium	5,273
Administrative expenses	537
Total deductions	<u>68,457</u>

Net decrease in net position (2,239)

Net position restricted for pension benefits

Beginning of year	<u>917,237</u>
End of year	<u>\$ 914,998</u>

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

Year Ended June 30, 2023

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 1,054-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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

1. Organization (continued)

- **UF Health Shands HomeCare** is a hospital-based home care agency providing home care services to residents of north central Florida.
- **Hotel Eleo at the University of Florida** is a 173-room boutique hotel located on the campus of UF Health Shands Hospital.
- **Shands Recovery, LLC d/b/a UF Health Florida Recovery Center** provides outpatient and residential treatment for alcohol and drug abuse, with on-site leased housing for certain programs. STHC is the sole member of Shands Recovery, LLC.
- **Elder Care of Alachua County, Inc. (“Elder Care”)** is a Florida not-for-profit corporation providing social and health care related services to the elderly in Alachua County. STHC is the sole corporate member of Elder Care.
- **Southeastern Healthcare Foundation, Inc. (“Southeastern”)** is a Florida not-for-profit corporation providing charitable aid to UF Health Shands. STHC is the sole corporate member of Southeastern.
- **Shands Auxiliary, Inc. (“Auxiliary”)** is a Florida not-for-profit corporation created for the purpose of supporting, promoting, and encouraging certain fundraising events for the benefit of charitable organizations and programs. Southeastern is the sole corporate member of Auxiliary.

UF Health Central Florida

- **Central Florida Health, Inc. d/b/a UF Health Central Florida (“UFHCF”)** is a not-for-profit community health care provider located in central Florida serving as the parent company to various health care related entities. STHC is the sole corporate member of UFHCF.
- **Leesburg Regional Medical Center, Inc. d/b/a UF Health Leesburg Hospital (“UFHL”)** is a 330-bed acute care hospital located in Leesburg, Florida. UFHCF is the sole corporate member of UFHL.
- **The Villages Tri-County Medical Center, Inc. d/b/a UF Health The Villages[®] Hospital (“UFHV”)** is a 307-bed acute care hospital in The Villages[®], a residential community located in central Florida. UFHCF is the sole corporate member of UFHV.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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.

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

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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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.

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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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”), FLCLASS (a short-term pooled investment program for government entities), government securities, fixed income securities, fixed income mutual funds, domestic equity mutual funds, international equity mutual funds, real estate investment trusts, equity securities exchange traded funds (“ETF”), money market funds, and a private equity partnership. Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in net investment income, including change in fair value, in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

Assets Whose Use is Limited

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

Assets Whose Use is Restricted

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

Inventories

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Pledges Receivable

Pledges receivable represent donor commitments to provide future funding, primarily in association with various construction projects at Shands and are generally due over the next five years. Pledges receivable are recorded net of an estimated allowance for uncollectible pledges. The current portion of pledges receivable is reported in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position. The long-term portion of pledges receivable is reported in other assets in the accompanying consolidated basic statement of net position. For the year ended June 30, 2023, pledge discount rates range from 0.33% to 3.54%.

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 \$5,000 or greater. Right-to-use lease assets are stated at the present value of minimum lease payments at the inception of the lease. Right-to-use assets under subscription-based information technology arrangements (“SBITA”) are stated at the present value of minimum payments under the SBITA at the inception of the agreement. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity or extend the useful life of an asset are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related depreciable assets as recommended by the American Hospital Association. Right-to-use assets and leasehold improvements are amortized using the straight-line method over the shorter of the contract term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statement of revenues, expenses and changes in net position.

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

	Useful Lives (Years)
Land improvements	5-40
Buildings	15-40
Leasehold improvements	3-25
SBITA Right to Use Asset	5-7
Movable equipment	3-15

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 \$60,225,000 as of June 30, 2023, and is included in accrued salaries and leave payable in the accompanying consolidated basic statement of net position.

Long-Term Debt

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

Bond 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,

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. Notwithstanding those similarities, deferred outflows of resources are not assets and deferred inflows of resources are not liabilities and accordingly, are not included in those sections of the accompanying consolidated basic statement of net position, but rather are separately reported.

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

Derivative Financial Instruments

Shands' derivative financial instruments consist of interest rate swaps, which are utilized by Shands to manage net exposure to interest rate changes associated with its variable rate debt and to lower its overall borrowing costs. Shands entered into floating to fixed rate interest rate swap agreements to reduce the market risk associated with changes in interest rates related to certain of Shands' variable rate revenue bonds. These derivative instruments are evaluated to determine if the derivative instrument is effective in reducing the identified financial risk. If the derivative instrument is determined to be an effective hedge, its fair value is recorded in other assets or other liabilities with a corresponding deferred outflow 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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

Revenues and Expenses

Shands’ consolidated basic statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with, or in support of, the provision of health care services, Shands’ principal activity. Operating expenses are all expenses incurred in support of the principal activity of providing health care services. 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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

patient accounts receivable are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

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

Medicare

Shands participates in the federal Medicare program. Approximately 37.5% of Shands' net patient service revenue for the year ended June 30, 2023, 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, 2023, the Medicare cost reports were final settled by the MAC through June 30, 2008 for STHC, through June 30, 2019 for UFHL and 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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

plans including health maintenance organizations, provider service networks, and other specialized networks. The majority of Medicaid beneficiaries are required to enroll in the MMA program. Approximately 10.2% of Shands' net patient service revenue for the year ended June 30, 2023, was derived from services to Medicaid beneficiaries. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed at prospectively determined rates based upon Enhanced Ambulatory Patient Groupings ("EAPGs").

In addition to the prospectively determined rates per discharge and EAPG payments received by Shands for the provision of health care services to Medicaid beneficiaries, the State of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in

net patient service revenue in the accompanying consolidated basic statement of revenues, expenses and changes in net position. Prior to fiscal year 2018, Shands was paid for certain services provided to Medicaid beneficiaries based on tentative rates derived from filed annual cost reports. These rates are subject to retroactive adjustments based on the results of final audited cost reports. As of June 30, 2023, 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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 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. Shands adopted GASB No. 91 as of July 1, 2022. The adoption of this 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. Shands adopted GASB No. 93 for the year ended June 30, 2023. The adoption of this 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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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. Shands adopted GASB No. 94 as of July 1, 2022. The adoption of this statement did not have a material impact on the 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 SBITA for government end users. SBITA are defined as contracts that convey 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. Shands adopted GASB No. 96 as of July 1, 2022. The adoption of this statement resulted in an increase in subscription obligations and related right-to-use subscription assets of approximately \$16,739,000.

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

In June 2022, the GASB issued GASB Statement No. 100, *Accounting Changes and Error Corrections* (“GASB No. 100”). The primary objective of GASB No. 100 is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

making decisions or assessing accountability. GASB No. 100 is effective for fiscal years beginning after June 15, 2023. Shands is currently evaluating the impact GASB No. 100 will have on its consolidated basic financial statements.

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

3. Un-sponsored Community Benefit

Community benefit is a planned, managed, organized, and measured approach to a health care organization’s participation in meeting identified community health needs. It 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, 2023, were approximately 2.4%.

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 Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

3. Un-sponsored Community Benefit (continued)

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

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

Shands' valuation of un-sponsored community benefits at estimated cost, net of reimbursement, for the year ended June 30, 2023, is as follows:

(in thousands of dollars)

Financial assistance provided	\$ 68,409
Government support applied to charity care	(13)
Medicaid shortfall	156,972
Net unreimbursed financial assistance and Medicaid shortfall	<u>225,368</u>
Benefits for the broader community:	
Community health services	4,727
Health professions education	40,705
Research	18,483
Donations	125
Total quantifiable benefits for the broader community	<u>64,040</u>
Total un-sponsored community benefits	<u>\$ 289,408</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

3. Un-sponsored Community Benefit (continued)

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 and Joint Commission certified primary stroke center in Gainesville. Shands also maintains an air and ground ambulance network at its trauma center and throughout remote areas in north Florida, central Florida and the Florida panhandle. Other specialty services provided at Shands' facilities include a regional burn intensive care unit and transplant centers for adult and pediatric patients in several disciplines, including heart, lung, liver, kidney, and bone marrow. In addition, Shands provides specialized pediatric services, including neonatal intensive care, pediatric intensive care, pediatric open heart and cardiac catheterization.

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

4. Investments

Investments are reported in the accompanying consolidated basic statement of net position as follows at June 30, 2023:

(in thousands of dollars)

Current assets:

Short-term investments	\$ 49,251
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Long-term assets:

Assets whose use is limited	1,150,606
Assets whose use is restricted	21,643
	<u>\$ 1,221,500</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

4. Investments (continued)

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, 2023:

(in thousands of dollars)

Held by trustees under indenture agreements	\$ 13,356
Held by trustee to meet workers' compensation and medical malpractice requirements	5,184
Donor funds restricted for specific purposes	3,103
	<u>\$ 21,643</u>

Pooled Investments

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

Shands holds membership units in the following Pooled Investment Funds:

- **Florida Global Fixed Income Fund, LLC**, which invests in domestic and international fixed income securities, including intermediate government and corporate bonds;
- **Florida Global Equity Fund, LLC**, which invests in domestic and international equity securities and equity funds; and
- **Florida Hedged Strategies Fund, LLC**, which invests in domestic and international hedge funds and exchange traded funds.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

4. Investments (continued)

Direct Investments

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

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

FLCLASS is a stable local government investment pool for Florida political subdivisions, instrumentalities of political subdivisions, and state agencies in the state of Florida including counties, cities, towns, villages, school districts, special districts, and other public entities.

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

The maturity of investments at June 30, 2023, 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	\$ 398,128	\$ –	\$ –	\$ –	\$ –	\$ 398,128
Florida Global Equity Fund, LLC	576,486	–	–	–	–	576,486
Florida Hedged Strategies Fund, LLC	171,162	–	–	–	–	171,162
	<u>1,145,776</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,145,776</u>
Direct Investments:						
SPIA	14,224	–	14,224	–	–	–
FLCLASS	11,244	11,244	–	–	–	–
Government securities	294	195	–	–	–	99
Fixed income securities	715	193	501	–	–	21
Fixed income mutual funds	28,398	–	–	–	–	28,398
Domestic equity mutual funds	1,118	–	–	–	–	1,118
International equity mutual funds	444	–	–	–	–	444
Real estate investment trusts	36	–	–	–	–	36
Equity securities ETF	3,739	–	49	524	19	3,147
Money market funds	15,420	–	–	–	–	15,420
Private equity	92	–	–	–	–	92
	<u>75,724</u>	<u>11,632</u>	<u>14,774</u>	<u>524</u>	<u>19</u>	<u>48,775</u>
	<u>\$ 1,221,500</u>	<u>\$ 11,632</u>	<u>\$ 14,774</u>	<u>\$ 524</u>	<u>\$ 19</u>	<u>\$ 1,194,551</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

4. Investments (continued)

Investment Risk Factors

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

Credit Risk

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

The credit risk profile of Shands' investments as of June 30, 2023, 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	\$ 398,128	\$ —	\$ —	\$ —	\$ —	\$ 398,128
Florida Global Equity Fund, LLC	576,486	—	—	—	—	576,486
Florida Hedged Strategies Fund, LLC	171,162	—	—	—	—	171,162
	<u>1,145,776</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,145,776</u>
Direct Investments:						
SPIA	14,224	—	14,224	—	—	—
FLCLASS	11,244	11,244	—	—	—	—
Government securities	294	—	—	195	—	99
Fixed income securities	715	172	48	425	49	21
Fixed income mutual funds	28,398	—	—	—	—	28,398
Domestic equity mutual funds	1,118	—	—	—	—	1,118
International equity mutual funds	444	—	—	—	—	444
Real estate investment trusts	36	—	—	—	—	36
Equity securities ETF	3,739	417	11	41	114	3,156
Money market funds	15,420	—	—	—	—	15,420
Private equity	92	—	—	—	—	92
	<u>75,724</u>	<u>11,833</u>	<u>14,283</u>	<u>661</u>	<u>163</u>	<u>48,784</u>
	<u>\$ 1,221,500</u>	<u>\$ 11,833</u>	<u>\$ 14,283</u>	<u>\$ 661</u>	<u>\$ 163</u>	<u>\$ 1,194,560</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

4. Investments (continued)

Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of Shands' investment portfolio are required to be separately disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2023, Shands did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk

As of June 30, 2023, Shands' investments were not exposed to custodial credit risk since the full amount of investments were insured, collateralized, or registered in Shands' name.

Interest Rate Risk

Shands' investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Refer to the distribution of Shands' investment in fixed income securities by maturity as of June 30, 2023.

Investment Income

Net investment income, including change in fair value, for the year ended June 30, 2023, is as follows:

(in thousands of dollars)

Pooled investment program income	\$ 70,729
Dividends, interest and other income	697
Net increase in fair value of investments	3,342
	<u>\$ 74,768</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

5. Fair Value

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

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

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

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

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

Shands’ investment in the SPIA is classified in Level 3 of the fair value hierarchy. The SPIA invests in a combination of short-term liquid instruments and intermediate fixed income securities. A maximum of 40% can be redeemed in varying amounts with 1-20 days’ notice, including up to \$20,000,000 with same day notice. The remaining 60% can be redeemed with 6 months’ notice. The 6 months’ notice period may be waived by the SPIA’s administration upon request.

Shands’ investment in FLCLASS is measured at the NAV per share or its equivalent. Redemptions are allowed daily. There is no minimum or maximum amount that must be invested or redeemed at a time.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

5. Fair Value (continued)

Shands' investment in Pantheon USA Fund V, L.P. is measured at the NAV per share or its equivalent. Redemptions are allowable only to the extent of distributions received from the fund's underlying fund investments. It is expected that the underlying assets of the fund will be liquidated over the next year. The remaining unfunded commitment as of June 30, 2023, 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, 2023, is as follows:

(in thousands of dollars)

	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Disposals and Transfers</u>	<u>Balance at June 30, 2023</u>
Depreciable assets:				
Capital assets (excluding lease and SBITA assets):				
Buildings and leasehold improvements	\$ 1,742,846	\$ 30,615	\$ (13,032)	\$ 1,760,429
Equipment	970,300	45,782	(5,493)	1,010,589
Accumulated depreciation	(1,548,354)	(114,630)	16,571	(1,646,413)
Capital assets (excluding lease and SBITA assets), net	<u>1,164,792</u>	<u>(38,233)</u>	<u>(1,954)</u>	<u>1,124,605</u>
Right-to-use assets:				
Leases:				
Buildings and leasehold improvements	33,805	4,287	–	38,092
Equipment	678	3,978	–	4,656
SBITA	16,739	10,265	–	27,004
Accumulated amortization	(6,226)	(8,991)	–	(15,217)
Right-to-use assets, net	<u>44,996</u>	<u>9,539</u>	<u>–</u>	<u>54,535</u>
Net depreciable assets	1,209,788	(28,694)	(1,954)	1,179,140
Land	92,665	38	–	92,703
Construction-in-progress	123,490	139,122	(36,561)	226,051
Capital assets, net	<u>\$ 1,425,943</u>	<u>\$ 110,466</u>	<u>\$ (38,515)</u>	<u>\$ 1,497,894</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

6. Capital Assets (continued)

Depreciation and amortization expense was approximately \$123,621,000 for the year ended June 30, 2023. Amortization expense on right-to-use lease assets was approximately \$8,991,000 for the year ended June 30, 2023. For the year ended June 30, 2023, fully depreciated capital assets with an original cost of approximately \$12,455,000 were disposed of and are no longer in service. Construction-in-progress at June 30, 2023 consists primarily of costs incurred for the construction of various hospital building renovations and other related projects. A loss on impairment of capital assets of \$6.5 million was recorded in the period.

7. Unconsolidated Affiliates

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

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

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

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Unconsolidated Affiliates (continued)

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

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

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

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

A summary of changes in investments in unconsolidated affiliates for the year ended June 30, 2023, is as follows:

(in thousands of dollars)

	Balance at June 30, 2022	Distributions	Investment Gain (Loss)	Balance at June 30, 2023
CareSpot	\$ 3,032	\$ (948)	\$ 784	\$ 2,868
SSH	2,731	-	(401)	2,330
Archer Rehab	7,224	(1,521)	1,328	7,031
South Central	6,444	(1,826)	-	4,618
MCD	750	-	(750)	-
LMI	12,024	-	(477)	11,547
CFCCMC	1,129	(167)	92	1,054
LeeSar	5,978	-	418	6,396
	<u>\$ 39,312</u>	<u>\$ (4,462)</u>	<u>\$ 994</u>	<u>\$ 35,844</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2023:

(in thousands of dollars)

Direct Placement Tax-Exempt Bonds:

Alachua County Health Facilities Authority:

Series 2008C, final maturity October 2028	\$ 20,625
Series 2016A, final maturity December 2030	26,010
	<u>46,635</u>

City of Leesburg, Florida:

Series 2011, final maturity July 2036	47,350
Series 2017, final maturity July 2036	25,585
	<u>72,935</u>
	<u>119,570</u>

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	101,520
Series 2019B-2, final maturity December 2037	45,020
	<u>704,095</u>

Sumter County Industrial Development Authority:

Series 2014A, final maturity July 2044	42,630
Series 2014B, final maturity July 2032	24,275
	<u>66,905</u>
	<u>771,000</u>

Taxable Notes:

Series 2013A, final maturity December 2042	125,000
	<u>1,015,570</u>

Net unamortized bond premium

43,149

Total long-term debt

1,058,719

Less: Current portion

(25,051)

Long-term portion

\$ 1,033,668

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Long-Term Debt (continued)

Changes in Shands' long-term debt, excluding unamortized discounts or premiums, for the year ended June 30, 2023, were as follows:

(in thousands of dollars)

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023	Amounts Due Within One Year
Direct Placement Tax-Exempt Bonds:					
Alachua County Health Facilities Authority:					
Series 2008C, final maturity October 2028	\$ 24,375	\$ —	\$ (3,750)	\$ 20,625	\$ 3,750
Series 2016A, final maturity December 2030	30,470	—	(4,460)	26,010	1,125
	<u>54,845</u>	<u>—</u>	<u>(8,210)</u>	<u>46,635</u>	<u>4,875</u>
City of Leesburg, Florida:					
Series 2011, final maturity July 2036	50,160	—	(2,810)	47,350	2,950
Series 2017, final maturity July 2036	26,775	—	(1,190)	25,585	1,250
	<u>76,935</u>	<u>—</u>	<u>(4,000)</u>	<u>72,935</u>	<u>4,200</u>
	<u>131,780</u>	<u>—</u>	<u>(12,210)</u>	<u>119,570</u>	<u>9,075</u>
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	105,735	—	(4,215)	101,520	8,090
Series 2019B-2, final maturity December 2037	45,020	—	—	45,020	—
	<u>708,310</u>	<u>—</u>	<u>(4,215)</u>	<u>704,095</u>	<u>8,090</u>
Sumter County Industrial Development Authority:					
Series 2014A, final maturity July 2044	43,675	—	(1,045)	42,630	1,095
Series 2014B, final maturity July 2032	26,370	—	(2,095)	24,275	2,200
	<u>70,045</u>	<u>—</u>	<u>(3,140)</u>	<u>66,905</u>	<u>3,295</u>
	<u>778,355</u>	<u>—</u>	<u>(7,355)</u>	<u>771,000</u>	<u>11,385</u>
Taxable Notes:					
Series 2013A, final maturity December 2042	125,000	—	—	125,000	—
Total long-term debt	<u>\$ 1,035,135</u>	<u>\$ —</u>	<u>\$ (19,565)</u>	<u>\$ 1,015,570</u>	<u>\$ 20,460</u>

The current portion of net unamortized bond premium was approximately \$4,591,000 as of June 30, 2023.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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		Other		Total Debt Service	
	Placement Bonds		Bonds and Notes			
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2024	9,075	3,037	11,386	37,570	20,461	40,607
2025	8,885	2,746	12,971	37,002	21,856	39,748
2026	9,120	2,457	13,771	36,333	22,891	38,790
2027	9,355	2,164	60,480	34,289	69,835	36,453
2028	10,815	1,851	9,420	32,733	20,235	34,584
2029-2033	50,265	4,719	77,945	157,545	128,210	162,264
2034-2038	22,055	1,140	174,968	132,171	197,023	133,311
2039-2043	–	–	271,448	98,004	271,448	98,004
2044-2048	–	–	192,834	31,286	192,834	31,286
2049-2053	–	–	70,777	2,860	70,777	2,860
	<u>\$ 119,570</u>	<u>\$ 18,114</u>	<u>\$ 896,000</u>	<u>\$ 599,793</u>	<u>\$ 1,015,570</u>	<u>\$ 617,907</u>

Cash paid for interest was approximately \$45,579,000 for the year ended June 30, 2023.

STHC entered into a Master Trust Indenture dated March 1, 1996, as amended and supplemented (“STHC MTI”) with U.S. Bank, National Association, as successor trustee, which established an obligated group (“STHC Obligated Group”) of affiliated entities that are jointly and severally liable for all obligations issued under the STHC MTI. STHC is currently the only member of the STHC Obligated Group. STHC has pledged a security interest in its gross revenues to secure payment of all obligations issued under the STHC MTI. All of STHC’s long-term debt is subject to obligations issued under the STHC MTI. The STHC MTI provides for specific financial covenants, including a minimum debt service coverage requirement. The STHC Obligated Group was in compliance with all such financial covenants as of June 30, 2023. 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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Long-Term Debt (continued)

UFHL and UFHV entered into a Master Trust Indenture dated December 1, 2008, as amended and supplemented (“UFHCF MTI”) with Bank of New York Mellon Trust Company, National Association, as successor trustee, which established an obligated group (“UFHCF Obligated Group”) of affiliated entities that are jointly and severally liable for all obligations issued under the UFHCF MTI. UFHCF, UFHL, and UFHV are currently the only members of the UFHCF Obligated Group. Each member of the UFHCF Obligated Group has pledged a security interest in its net income (as defined in the UFHCF MTI) and certain mortgaged property, including land and improvements, buildings and improvements, and equipment, to secure payment of all obligations issued under the UFHCF MTI. All of the UFHCF Obligated Group members’ long-term debt is subject to obligations issued under the UFHCF MTI. The UFHCF MTI provides for specific financial covenants, including a minimum debt service coverage requirement. The UFHCF Obligated Group was in compliance with all such financial covenants as of June 30, 2023. 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 4.66% at June 30, 2023.

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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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 4.85% at June 30, 2023.

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 5.05% at June 30, 2023.

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 4.55% at June 30, 2023. The Series 2007A Bonds are redeemable at STHC’s option at par value.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Long-Term Debt (continued)

Series 2008A Health Facilities Revenue Bonds

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

The Series 2008A Bonds are variable rate bonds issued in the Unit Pricing Mode. Interest periods range from 1 to 270 days. The weighted average interest rate on the Series 2008A Bonds was 3.18% at June 30, 2023. The Series 2008A Bonds are backed by a bank letter of credit (“LOC”) expiring in August 2024. The annual LOC fee is equal to 0.40% of the bank LOC amount of approximately \$53,893,000. There were no amounts outstanding under this LOC at June 30, 2023. 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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Long-Term Debt (continued)

Series 2014B Hospital Revenue Bonds

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

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

Taxable Notes

Series 2013A Taxable Notes

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Interest Rate Swaps

At June 30, 2023, 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.	\$ (3,321)
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.	(5,011)
2008C	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008C Bonds	\$ 20,625	11/5/2008	10/2/2028	Pay fixed rate of 4.18%. Receive 65% of one-month LIBOR plus 130 basis points.	(29)
2011	Fixed rate payer interest rate swap	Hedge of changes in cash flows on a portion of the Series 2011 Bonds	\$ 11,465	8/14/2008	7/1/2031	Pay fixed rate of 3.352%. Receive 67% of one month LIBOR.	(279)
2017	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2017 Bonds	\$ 25,920	3/1/2011	7/1/2036	Pay fixed rate of 3.6375%. Receive 67% of one-month LIBOR.	(1,974)
							<u>\$ (10,614)</u>

At June 30, 2023, approximately \$10,614,000 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 \$8,179,000 were reported as accumulated decrease in fair value of hedging derivatives in the accompanying consolidated basic statement of net position.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Interest Rate Swaps (continued)

Credit Risk

Shands has sought to limit its counterparty risk. As of June 30, 2023, the Moody's and Standard & Poor's credit ratings for the counterparty were as follows:

<u>Item</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
2007A	A1	A-
2008A	A1	A-
2008C	A2	A
2011	A2	AA-
2017	A2	A

Interest Rate Risk

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

Basis Risk

Shands is exposed to basis risk on certain fixed rate payer swap agreements because the variable rate payments received by Shands on the hedging derivative instrument are based on a rate or index other than the interest rates that Shands pays on its hedged variable rate debt. As of June 30, 2023, the weighted variable interest rates on Shands' hedged variable rate debt and swap index are as follows:

<u>Item</u>	<u>Type</u>	<u>Objective</u>	<u>Debt Interest Rate</u>	<u>Swap Index Rate</u>
2008A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008A Bonds	3.18%	67% of one-month LIBOR, reset weekly, or 3.48%
2011	Fixed rate payer interest rate swap	Hedge of changes in cash flows on a portion of the Series 2011 Bonds	4.85%	67% of one-month LIBOR, reset monthly, or 3.50%
2017	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2017 Bonds	5.05%	67% of one-month LIBOR, reset monthly, or 3.50%

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Interest Rate Swaps (continued)

Termination Risk

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

Commitments

The 2007A interest rate swap agreement requires collateral to be posted if the fair value of the interest rate swap is negative and exceeds certain thresholds. The threshold amount depends on Shands' unenhanced credit rating as determined by Moody's and Standard & Poor's. As of June 30, 2023, Shands was not required to post collateral with the counterparty.

10. Retirement Benefit Plans

Defined Contribution Plans

STHC sponsors two defined contribution plans that cover eligible employees – the Shands HealthCare Matched Savings Account 403(b) (“403(b) Plan”) and the Shands HealthCare Matched Savings Account 401(a) (“401(a) Plan”). Under the provisions of the 403(b) Plan, employees may elect to defer up to 75% of annual compensation (as defined) subject to Internal Revenue Code limitations. Under the 401(a) Plan, STHC makes a nonelective discretionary contribution on behalf of employees (a percentage of compensation based upon years of service) and a matching contribution equal to 75% of the first 4% of compensation that an employee contributes to the 403(b) Plan. STHC's contributions to the 401(a) Plan were approximately \$46,896,000 for the year ended June 30, 2023.

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 \$3,523,000 for the year ended June 30, 2023.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

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

Plan Description

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

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

Benefits Provided

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

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

Employees Covered by Benefit Terms

At June 30, 2022, the measurement date for the pension liability, the following employees of STHC were covered by the benefit terms (participant data as of July 1, 2021):

Active	2,825
Terminated vested	1,641
Retired	2,918
	<u>7,384</u>

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 \$15,365,000 for the year ended June 30, 2023, exceed the minimum funding requirements of ERISA.

Net Pension Asset

STHC's proportionate share of the net pension asset as of June 30, 2023 was approximately \$25,162,000 based on a measurement date of June 30, 2022, 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, 2022, was determined based on the results of an actuarial valuation as of July 1, 2021, projected forward to June 30, 2022, using standard actuarial techniques. 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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

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, 2023, STHC's proportionate share of the net pension asset was 101.7%, which was an 8.9% increase from June 30, 2022.

The total pension liability was based on the results of the actuarial valuation as of July 1, 2021, and was determined based on census data as of July 1, 2021 and the following actuarial assumptions:

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

Salary increases: Not applicable

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

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

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	37.0%	5.82%
Long credit fixed income	28.0%	1.78%
Long government/credit fixed income	28.0%	1.01%
Multi asset credit	5.6%	2.74%
Private equity	1.4%	8.93%
Total	<u>100.0%</u>	

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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

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

The following presents STHC's proportionate share of the net pension (liability) 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%):

<i>(in thousands of dollars)</i>	<u>1% Decrease 5.10%</u>	<u>Current Discount Rate 6.10%</u>	<u>1% Increase 7.10%</u>
Proportionate share of the net pension (liability) asset	\$ (64,962)	\$ 25,162	\$ 100,961

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

STHC recognized pension expense of approximately \$17,846,000 for the year ended June 30, 2023. At June 30, 2023, Shands reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

<i>(in thousands of dollars)</i>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 7,585	\$ 397
Changes in assumptions	39,241	52,914
Net differences between projected and actual earnings on pension plan investments	105,437	—
Contributions made during the year ended June 30, 2023 not yet recognized in fiduciary net position	15,365	—
Total	<u>\$ 167,628</u>	<u>\$ 53,311</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

The contributions made to the Plan during the year ended June 30, 2023 will be reported as an increase in Shands' proportionate share of the net pension asset during the subsequent year. The other amounts reported as deferred outflows of resources on pension and deferred inflows of resources on pension will be recognized as a decrease in pension expense or an increase in pension income as follows:

(in thousands of dollars)

Year Ending June 30

2024	\$ 20,529
2025	10,627
2026	14,585
2027	53,211
Thereafter	—

Fair Value Measurements

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

(in thousands of dollars)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Interest bearing cash	\$ 8,043	\$ —	\$ —	\$ 8,043
U.S. government securities	—	179,126	—	179,126
Corporate debt instruments-preferred	—	68,649	—	68,649
Corporate debt instruments	—	111,701	—	111,701
Fixed income funds	—	240,991	—	240,991
Equity funds	13,986	222,589	—	236,575
Preferred and common stock	88,240	—	—	88,240
Other investments	—	10,623	—	10,623
Total assets in the fair value hierarchy	<u>\$ 110,269</u>	<u>\$ 833,679</u>	<u>\$ —</u>	943,948
Investments measured at NAV				14,486
Total investments measured at fair value				<u>\$ 958,434</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

Credit Risk

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

Interest Rate Risk

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

(in thousands of dollars)

	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	Over 10 Years	N/A
Interest bearing cash	\$ 8,043	\$ -	\$ -	\$ -	\$ -	\$ 8,043
U.S. government securities	179,126	579	4,438	23,409	140,222	10,478
Corporate debt instruments-preferred	68,649	18	4,501	4,392	58,497	1,241
Corporate debt instruments	111,701	2,552	13,620	18,045	71,856	5,628
Fixed income funds	240,991	-	-	-	-	240,991
Equity funds	236,575	2,109	-	-	-	234,466
Preferred and common stock	88,240	-	1,141	-	79	87,020
Other investments	10,623	-	821	1,502	8,300	-
Total assets in the fair value hierarchy	<u>943,948</u>	<u>\$ 5,258</u>	<u>\$ 24,521</u>	<u>\$ 47,348</u>	<u>\$ 278,954</u>	<u>\$ 587,867</u>
Investments measured at NAV	14,486					
Total investments	<u>\$ 958,434</u>					

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

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

(in thousands of dollars)

	Fair Value	AAA/AA	A	BBB	Below BBB-	Not Rated
Interest bearing cash	\$ 8,043	\$ –	\$ –	\$ –	\$ –	\$ 8,043
U.S. government securities	179,126	168,648	–	–	–	10,478
Corporate debt instruments-preferred	68,649	18,909	26,702	8,090	13,706	1,242
Corporate debt instruments	111,701	6,838	18,830	32,746	47,658	5,629
Fixed income funds	240,991	–	–	–	–	240,991
Equity funds	236,575	–	–	–	–	236,575
Preferred and common stock	88,240	–	–	–	–	88,240
Other investments	10,623	4,399	787	758	820	3,859
Total assets in the fair value hierarchy	<u>943,948</u>	<u>\$ 198,794</u>	<u>\$ 46,319</u>	<u>\$ 41,594</u>	<u>\$ 62,184</u>	<u>\$ 595,057</u>
Investments measured at NAV	14,486					
Total investments measured at fair value	<u>\$ 958,434</u>					

Concentration of Credit Risk

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

Custodial Risk

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Retirement Benefit Plans (continued)

Foreign Currency Risk

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

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

(in thousands of dollars)

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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, 2023, 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, 2022):

Active	2,563
Terminated vested	1,721
Retired	3,453
	<u>7,737</u>

Net Pension Asset

The components of the Plan’s net pension asset as of June 30, 2023 were as follows:

(in thousands of dollars)

Total pension liability	\$ (853,640)
Plan fiduciary net position	914,998
Net pension asset	<u>\$ 61,358</u>

Plan fiduciary net position as a percentage of the total pension liability	107.2%
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The total pension liability used to calculate the net pension asset as of June 30, 2023, was determined based on the results of an actuarial valuation as of July 1, 2022, projected forward to June 30, 2023 using standard actuarial techniques. The July 1, 2022 actuarial valuation was determined based on the census data as of July 1, 2022 and the following actuarial assumptions:

Investment Rate of Return: 6.40%, net of pension plan investment expense, including inflation.

Salary increases: Not applicable

Inflation: 3.00% for the period July 1, 2022 through June 30, 2023, 2.48% for the period July 1, 2023 through June 30, 2024, and 2.00% per year thereafter.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

Retirement Growth Account Interest Crediting Rate: 3.42% for the period July 1, 2022 through June 30, 2023, 3.66% for the period July 1, 2023 through June 30, 2024, and 4.10% per year thereafter. The 3.42% and 3.66% rates represent the actual interest rate credited in each respective period.

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

The actuarial assumptions associated with retirement and termination rates and used in the July 1, 2022 valuation were based on the results of an actual experience study conducted in 2020, which assessed actual experience for the period July 1, 2015 through June 30, 2020.

For the year ended June 30, 2023, the annual money-weighted rate of return on pension plan investments, net of investment plan expenses, was 5.5%. 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%	5.77%
Long credit fixed income	28.0%	3.31%
Long government/credit fixed income	28.0%	2.59%
Multi asset credit	5.6%	3.93%
Private equity	1.4%	9.07%
Total	100.0%	

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

The discount rate used to measure the total pension liability was 6.40%. 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 (Liability) Asset to Changes in the Discount Rate

The following presents the net pension asset (liability) calculated using the discount rate of 6.40%, as well as a discount rate that is 1% lower (5.40%), and 1% higher (7.40%):

<i>(in thousands of dollars)</i>	1% Decrease 5.40%	Current Discount Rate 6.40%	1% Increase 7.40%
Net pension asset (liability)	\$ (24,229)	\$ 61,358	\$ 133,905

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

Fair Value Measurements

The following table presents the fair value leveling of the Plan's investments as of June 30, 2023:

(in thousands of dollars)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Interest bearing cash	\$ 4,257	\$ –	\$ –	\$ 4,257
U.S. government securities	–	201,203	–	201,203
Corporate debt instruments-preferred	–	104,206	–	104,206
Corporate debt instruments	–	138,660	–	138,660
Fixed income funds	–	153,744	–	153,744
Equity funds	14,558	235,762	–	250,320
Preferred and common stock	93,436	–	–	93,436
Other investments	–	9,469	–	9,469
Total assets in the fair value hierarchy	<u>\$ 112,251</u>	<u>\$ 843,044</u>	<u>\$ –</u>	955,295
Investments measured at NAV				<u>9,840</u>
Total investments measured at fair value				<u>\$ 965,135</u>

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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

Interest Rate Risk

Interest rate risk exposure is managed by limiting investment maturities in accordance with parameters in the Plan's investment policy. The Plan has investments maturing as of June 30, 2023 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	\$ 4,257	\$ –	\$ –	\$ –	\$ –	\$ 4,257
U.S. government securities	201,203	3,731	16,106	20,709	145,019	15,638
Corporate debt instruments-preferred	104,206	–	3,032	22,539	78,635	–
Corporate debt instruments	138,660	1,096	10,656	33,881	91,353	1,674
Fixed income funds	153,744	648	–	–	–	153,096
Equity funds	250,320	–	–	–	–	250,320
Preferred and common stock	93,436	–	1,191	189	–	92,056
Other investments	9,469	–	572	1,625	3,543	3,729
Total assets in the fair value hierarchy	<u>955,295</u>	<u>\$ 5,475</u>	<u>\$ 31,557</u>	<u>\$ 78,943</u>	<u>\$ 318,550</u>	<u>\$ 520,770</u>
Investments measured at NAV	9,840					
Total investments	<u>\$ 965,135</u>					

The Plan has investment credit ratings as of June 30, 2023 as follows:

(in thousands of dollars)

	Fair Value	AAA/AA	A	BBB	Below BBB-	Not Rated
Interest bearing cash	\$ 4,257	\$ –	\$ –	\$ –	\$ –	\$ 4,257
U.S. government securities	201,203	185,565	–	–	–	15,638
Corporate debt instruments-preferred	104,206	19,618	64,054	13,246	7,288	–
Corporate debt instruments	138,660	11,059	25,888	58,026	42,014	1,673
Fixed income funds	153,744	–	–	–	–	153,744
Equity funds	250,320	–	–	–	–	250,320
Preferred and common stock	93,436	–	–	–	–	93,436
Other investments	9,469	3,793	746	758	313	3,859
Total assets in the fair value hierarchy	<u>955,295</u>	<u>\$ 220,035</u>	<u>\$ 90,688</u>	<u>\$ 72,030</u>	<u>\$ 49,615</u>	<u>\$ 522,927</u>
Investments measured at NAV	9,840					
Total investments measured at fair value	<u>\$ 965,135</u>					

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

Concentration of Credit Risk

The Plan's investment policy provides certain guidelines to limit concentration of credit risk. The guidelines require long credit and long government/credit fixed income portfolio investments to be appropriately distributed to provide prudent diversification. At the time of purchase, the market value of a holding in an individual issuer will be limited to 5% of the portfolio market value, and each individual issue shall not represent more than 5% of the portfolio market value with the exception of government and government-agency sponsored issues, or in the case of long government/credit fixed income portfolio investments, collective vehicles such as mutual funds and commingled trusts employed in the execution of the strategy. As of June 30, 2023, 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, 2023, the Plan's investment portfolio was held by a single third-party custodian.

Foreign Currency Risk

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

The Plan's exposure to foreign currency risk as of June 30, 2023 is as follows:

(in thousands of dollars)

Currency	
Australian dollar	\$ 1,218
Brazil real	351
Canadian dollar	2,752
Chilean peso	126
Chinese yuan	7
Colombian peso	361
Danish krone	3,381
Euro currency unit	24,872
Hong Kong dollar	6,239
Indian rupee	769
Japanese yen	15,706
Mexican peso	1,242
Norwegian krone	1,084
Peruvian sol	84
British pound sterling	5,288
South African rand	1,745
Swedish krona	3,450
Swiss franc	3,905
Total Plan investments subject to foreign currency risk	<u>\$ 72,580</u>
Percentage of total Plan investments	7.9%

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Commitments and Contingencies

Hospital Facility Contractual Agreement

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

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

Lessee Leases Under GASB No. 87

Shands recognizes lease obligations and right-to-use lease assets for agreements whereby Shands has the right to determine the nature and manner of an underlying asset’s use for a period of one year or greater.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Commitments and Contingencies (continued)

Property Leases

Shands leases 32 facilities throughout central Florida in order to provide healthcare services to patients in the region. These sites include a mix of physician and other medical offices. While terms vary by lease, each lease provides for a monthly lease payment subject to a fixed escalation on the anniversary date of each agreement. None of the leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources. As of June 30, 2023, the right-to-use lease asset, net of amortization for property leases was approximately \$26,763,000, and is included in capital assets, net in the accompanying consolidated basic statement of net position.

Vehicle and Equipment Leases

Shands leases 16 vehicles ranging from passenger cars to transit vans. Lease terms range up to 51 months. The monthly lease payment, annual mileage allowance, and excess mileage rate are specific to each vehicle. Upon termination of a vehicle lease, Shands is responsible for payment of any excess mileage charge based on the applicable annual mileage allowance and excess mileage rate of the vehicle. Estimates of excess mileage charges are excluded from the computation of the right to use asset and corresponding obligation. If Shands decides to continue use of a vehicle after the term of the lease has ended, the terms of the lease remain in full force and effect and Shands shall continue to pay the monthly lease payment for each month a vehicle is in use beyond the lease termination date. There are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources. As of June 30, 2023, the right-to-use asset, net of amortization for the fleet amounted to approximately \$4,286,000, and is included in capital assets, net in the accompanying consolidated basic statement of net position.

At June 30, 2023, the unamortized value of right-to-use lease assets included in capital assets, net in the accompanying consolidated basic statement of net position was approximately \$42,748,000, and the accumulated amortization on right-to-use lease assets as of June 30, 2023 was approximately \$11,732,000.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Commitments and Contingencies (continued)

SBITA Under GASB No. 96

Shands recognizes subscription obligations and right-to-use subscription assets for agreements whereby Shands controls the right-to-use another party's information technology software for a period of one year or greater.

Shands has entered into 11 SBITA with terms that range up to 84 months. The monthly payment rate is specific to each agreement based on the term of the contract. As of June 30, 2023, the right-to-use asset, net of amortization for SBITA agreements amounted to approximately \$23,872,000, and is included in capital assets, net in the accompanying consolidated basic statement of net position.

At June 30, 2023, the unamortized value of right-to-use SBITA assets included in capital assets, net in the accompanying consolidated basic statement of net position was approximately \$27,004,000, and the accumulated amortization on right-to-use lease assets as of June 30, 2023 was approximately \$3,132,000.

The following is a schedule, by year, of the principal and interest requirements to maturity for lease obligations and SBITA obligations for each of the five subsequent fiscal years and in five-year increments thereafter as of June 30, 2023:

(in thousands of dollars)

Year	Lease Obligations			SBITA Obligations			Total Lease and SBITA Obligations		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 3,674	\$ 993	\$ 4,667	\$ 6,052	\$ 1,283	\$ 7,335	\$ 9,726	\$ 2,276	\$ 12,002
2025	5,088	867	5,955	5,906	1,004	6,910	10,994	1,871	12,865
2026	4,454	729	5,183	6,260	702	6,962	10,714	1,431	12,145
2027	4,019	596	4,615	6,636	381	7,017	10,655	977	11,632
2028	3,938	465	4,403	1,045	106	1,151	4,983	571	5,554
2029-2033	7,743	1,345	9,088	1,105	54	1,159	8,848	1,399	10,247
2034-2038	2,790	697	3,487			–	2,790	697	3,487
2039-2043	776	349	1,125			–	776	349	1,125
2044-2048	812	223	1,035			–	812	223	1,035
2049-2053	842	62	904			–	842	62	904
Total	<u>\$ 34,136</u>	<u>\$ 6,326</u>	<u>\$ 40,462</u>	<u>\$ 27,004</u>	<u>\$ 3,530</u>	<u>\$ 30,534</u>	<u>\$ 61,140</u>	<u>\$ 9,856</u>	<u>\$ 70,996</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Commitments and Contingencies (continued)

Lessor Leases Under GASB No. 87

Shands recognizes lease receivables and deferred inflows of resources for lease agreements in which Shands is the lessor. Shands is the lessor for 18 property locations throughout north central Florida in order to assist in the provision of healthcare services in the region. These sites include various physician and other medical offices. While terms vary by lease, each lease provides for a monthly lease payment subject to a fixed escalation on the anniversary date of each agreement. Lease revenue on lessor leases was approximately \$3,621,000 for the year ended June 30, 2023, and is included in other nonoperating revenues, net in the accompanying consolidated basic statement of revenues, expenses, and changes in net position. Interest income on lessor leases was approximately \$710,000 for the year ended June 30, 2023, and is included in net investment income, including change in fair value in the accompanying consolidated basic statement of revenues, expenses, and changes in net position. As of June 30, 2023, the receivable for leases was approximately \$30,086,000, of which, approximately \$26,815,000 is included in other assets and \$3,271,000 is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

The following is a schedule, by year, of the principal and interest requirements to maturity for the property lease receivable for each of the five subsequent fiscal years and in five-year increments thereafter as of June 30, 2023:

(in thousands of dollars)

Year	Principal	Interest	Total
2024	\$ 3,271	\$ 721	\$ 3,992
2025	3,480	697	4,177
2026	3,577	615	4,192
2027	3,520	533	4,053
2028	2,588	411	2,999
2029-2033	3,951	1,479	5,430
2034-2038	1,981	1,473	3,454
2039-2043	1,825	1,202	3,027
2044-2048	2,517	826	3,343
2049-2053	3,376	314	3,690
Total	<u>\$ 30,086</u>	<u>\$ 8,271</u>	<u>\$ 38,357</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Commitments and Contingencies (continued)

Commitments

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

Shands has contracts for the construction and renovation of facilities and equipment purchases. As of June 30, 2023, the remaining commitments relating to these contracts were approximately \$69,593,000.

Risk Management and Professional Liabilities

Shands is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; 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, 2023.

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 Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Commitments and Contingencies (continued)

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, 2023, total approximately \$2,104,000 and are included in other liabilities in the accompanying consolidated basic statement of net position. UFHCF may be liable for ultimate losses in excess of amounts accrued. Management believes that any adjustments to Shands' recorded liability will not materially affect Shands' financial position, results of operations or cash flows.

The following is a summary of changes in UFHCF's self-insurance liability for professional and general liability costs for the year ended June 30, 2023:

(in thousands of dollars)

Balance at beginning of year	\$ 5,500
Provision for claims reported and claims incurred but not reported	(3,210)
Claims paid	(186)
Balance at end of year	<u>\$ 2,104</u>

Self-Insured Health Plans

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Commitments and Contingencies (continued)

Expenses, net of employee contributions, related to the health and pharmaceutical plans for the year ended June 30, 2023 were approximately \$115,400,000.

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, 2023. 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, 2023 was approximately \$713,000.

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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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 \$392,804,000 for the year ended June 30, 2023. At June 30, 2023, approximately \$15,127,000 was owed to UF under these agreements and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

Shands provides contracted services at cost to UF in support of its health science colleges, including nonphysician medical professional services, telephone communication, and various other services. The amount for these contracted services was approximately \$173,469,000 for the year ended June 30, 2023. At June 30, 2023, approximately \$26,220,000 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.

UFSIP provides medical malpractice and general liability occurrence-based coverage to Shands with excess coverage provided by UFHEIC. Expenses related to these coverages were approximately \$3,765,000 for the year ended June 30, 2023.

Shands has an investment management agreement with UFICO to manage a portion of its investments. UFICO was created by the UF Board for the purpose of managing assets held by UF and its related corporations. As of June 30, 2023, the fair value of investments managed by UFICO on Shands' behalf was approximately \$1,145,776,000. Investment management fees of approximately \$1,337,000 were incurred for the year ended June 30, 2023. The balance due to UFICO was approximately \$465,000 as of June 30, 2023, of which approximately \$118,000 is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position and approximately \$347,000 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 \$5,696,000 for the year ended June 30, 2023. At June 30, 2023, approximately \$1,222,000 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 Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

13. Transactions with Related Parties (Continued)

SJMC provides organ procurement services for Shands. Expenses related to these services were approximately \$431,000 for the year ended June 30, 2023.

At June 30, 2023, Shands had a note receivable of approximately \$10,196,000 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 \$1,170,000 at June 30, 2023 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 \$9,026,000 at June 30, 2023 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, 2023 were approximately \$135,675,000. At June 30, 2023, approximately \$18,564,000 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, 2023 was approximately \$2,145,000. At June 30, 2023, approximately \$410,000 was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net position.

Shands leases medical space from Innovation Square, LLC, a planned mix-use research neighborhood owned by the University of Florida Development Corporation. Expenses associated with the leased space were approximately \$154,000 for the year ended June 30, 2023.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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, 2023, is as follows:

Medicare (includes HMOs)	35.0%
Medicaid (includes HMOs)	8.0%
Blue Cross	19.5%
Commercial	5.3%
Managed Care	25.2%
Other payors	7.0%
	<u>100.0%</u>

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

Shands places its cash and cash equivalents with 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 \$57,481,000 as of June 30, 2023. Management does not anticipate nonperformance risk by the financial institutions.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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, 2023:

(in thousands of dollars)

	Shands (Excluding UFHL and UFHV)	UFHL	UFHV	Total
Cash and cash equivalents	\$ 28,833	\$ –	\$ 3,867	\$ 32,700
Short-term investments	49,251	–	–	49,251
Other current assets	463,887	51,498	32,561	547,946
Capital assets, net	1,231,960	99,549	166,385	1,497,894
Other assets	1,019,271	241,462	33,765	1,294,498
Total assets	<u>2,793,202</u>	<u>392,509</u>	<u>236,578</u>	<u>3,422,289</u>
Deferred outflows of resources	194,988	626	2,211	197,825
Current liabilities	381,598	40,016	24,344	445,958
Long-term liabilities	958,412	25,859	118,323	1,102,594
Total liabilities	<u>1,340,010</u>	<u>65,875</u>	<u>142,667</u>	<u>1,548,552</u>
Deferred inflows of resources	79,194	–	4,761	83,955
Net position				
Net investment in capital assets	269,374	68,976	46,898	385,248
Restricted				
Nonexpendable	2,260	–	–	2,260
Expendable	2,003	–	–	2,003
Unrestricted	1,295,349	258,284	44,463	1,598,096
Total net position	<u>\$ 1,568,986</u>	<u>\$ 327,260</u>	<u>\$ 91,361</u>	<u>\$ 1,987,607</u>

UFHCF is not considered a major component unit of STHC and as such, is included in Shands (Excluding UFHL and UFHV) in the table above. As of June 30, 2023, UFHCF holds investments of approximately \$196,519,000, which are included in Other assets in the condensed consolidating statement of net position in the table above.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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 for the year ended June 30, 2023:

(in thousands of dollars)

	Shands (Excluding UFHL and UFHV)	UFHL	UFHV	Total
Net patient service revenue	\$ 2,249,441	\$ 246,043	\$ 218,998	\$ 2,714,482
Other operating revenue	52,139	16,809	3,105	72,053
Total operating revenues	<u>2,301,580</u>	<u>262,852</u>	<u>222,103</u>	<u>2,786,535</u>
Operating expenses	2,234,369	270,274	209,162	2,713,805
Operating income (loss)	67,211	(7,422)	12,941	72,730
Nonoperating revenues (expenses), net	47,519	(1,315)	(4,937)	41,267
Excess (deficit) of revenues over expenses	114,730	(8,737)	8,004	113,997
Other changes in net position				
Capital contributions	5,298	–	–	5,298
Other changes in net position	212	(2)	–	210
Increase (decrease) in net position	<u>120,240</u>	<u>(8,739)</u>	<u>8,004</u>	<u>119,505</u>
Net position				
Beginning of year	1,448,746	335,999	83,357	1,868,102
End of year	<u>\$ 1,568,986</u>	<u>\$ 327,260</u>	<u>\$ 91,361</u>	<u>\$ 1,987,607</u>

The following table presents the condensed consolidating statement of cash flows of STHC's major component units for the year ended June 30, 2023:

(in thousands of dollars)

	Shands (Excluding UFHL and UFHV)	UFHL	UFHV	Total
Net cash provided by (used in)				
Operating activities	\$ 65,857	\$ (17,842)	\$ 19,584	\$ 67,599
Noncapital financing activities	9,825	(1,304)	(96)	8,425
Capital and related financing activities	(182,232)	(22,253)	(31,330)	(235,815)
Investing activities	82,353	815	79	83,247
Net decrease in cash and cash equivalents	(24,197)	(40,584)	(11,763)	(76,544)
Cash and cash equivalents				
Beginning of year	53,030	40,584	15,630	109,244
End of year	<u>\$ 28,833</u>	<u>\$ –</u>	<u>\$ 3,867</u>	<u>\$ 32,700</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

16. Subsequent Events

Shands has assessed the impact of subsequent events through September 26, 2023, the date the consolidated basic financial statements were available to be issued, and has concluded that there were no such events, other than the events described below, that require adjustment to the consolidated basic financial statements or disclosure in the notes to the consolidated basic financial statements.

Debt Guaranty

On August 11, 2023, STHC entered into a Guaranty of Payment agreement in favor of TD Bank, N.A. and The Toronto-Dominion Bank, whereby STHC agreed to guarantee payment of principal and interest on certain tax-exempt bonds issued by the ACHFA (the “Issuer”) on behalf of FCPA, the faculty practice plan of the University of Florida College of Medicine. Specifically, STHC agreed to guarantee payment of principal and interest on the Issuer’s (i) Health Facilities Revenue Bond (Florida Clinical Practice Association, Inc. Project), Series 2022, (ii) Health Facilities Revenue Bond (Florida Clinical Practice Association, Inc. Project), Series 2019, and (iii) Health Facilities Revenue Bond (Florida Clinical Practice Association, Inc. Project), Series 2017. The guaranty of payment on FCPA’s debt had no impact on the accompanying consolidated basic statements of net position and revenues, expenses and changes in net position as of and for the year ended June 30, 2023.

Flagler Health+ Acquisition

Effective September 1, 2023, Shands completed the acquisition of Flagler Hospital, Inc. d/b/a Flagler Health+ (“Flagler”), a community health care provider in St. Augustine, Florida, pursuant to which Shands became the sole corporate member of Flagler. Flagler operates a 335-bed acute care hospital and is the sole corporate member or sole member of various health care-related organizations. As a result of the acquisition, the local Flagler Board of Directors is comprised of three members nominated by Flagler and four members nominated by Shands. The acquisition of Flagler had no impact on the accompanying consolidated basic statements of net position and revenues, expenses and changes in net position as of and for the year ended June 30, 2023.

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, 2023

(in thousands of dollars)

	Proportion of the Net Pension (Asset) Liability	Proportionate Share of the Net Pension (Asset) Liability	Covered Payroll	Proportionate Share of the Net Pension (Asset) Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total as a Percentage of the Total Pension Liability
2014	88.5%	\$ 43,735	N/A	N/A	94.2%
2015	96.0%	(54,249)	N/A	N/A	106.9%
2016	85.5%	36,013	N/A	N/A	95.9%
2017	84.8%	35,698	N/A	N/A	95.5%
2018	99.5%	(47,505)	N/A	N/A	105.9%
2019	98.8%	(23,110)	N/A	N/A	102.8%
2020	95.5%	(117,369)	N/A	N/A	114.8%
2021	93.2%	(108,180)	N/A	N/A	113.1%
2022	92.8%	(204,865)	N/A	N/A	122.5%
2023	101.7%	(25,162)	N/A	N/A	103.0%

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 2023:

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

The mortality projection scale was updated from Mercer modified projection-2019 to Mercer modified projection-2021.

Changes in assumptions 2022:

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

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

Changes in assumptions 2021:

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

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

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

Changes in assumptions 2020:

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

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

Changes in assumptions 2019:

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Changes in assumptions 2018:

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

Changes in assumptions 2017:

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

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

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

Changes in assumptions 2016:

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

Changes in assumptions 2015:

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

Changes in assumptions 2014:

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Schedule of Employer Contributions (Unaudited)

Shands HealthCare Pension Plan II

July 1, 2013 Through June 30, 2023

	<u>Actuarially Determined Contribution</u>	Contributions in Relation to the Actuarially Determined Contribution	<u>Contribution Excess</u>
2014	\$ —	\$ 35,757	\$ 35,757
2015	—	23,736	23,736
2016	—	21,863	21,863
2017	—	29,036	29,036
2018	—	29,279	29,279
2019	—	25,346	25,346
2020	—	17,529	17,529
2021	—	16,210	16,210
2022	—	16,116	16,116
2023	—	15,365	15,365

Notes to Schedule

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

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

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Schedule of Employer Contributions (Unaudited) (continued)

Shands HealthCare Pension Plan II

July 1, 2013 Through June 30, 2023

	2023	2022	2021	2020	2019
Valuation date	July 1, 2022	July 1, 2021	July 1, 2020	July 1, 2019	July 1, 2018
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit	Unit Credit	Unit Credit
Asset valuation method	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430	2-year smoothed value of assets adjusted to be no greater than 110% and no less than 90% of the fair market value, as defined in IRC Section 430
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Discount rates	PPA segmented yield curve rates of 4.75% for the first 5 years, 5.18% for the next 15 years, and 5.92% thereafter	PPA segmented yield curve rates of 4.75% for the first 5 years, 5.36% for the next 15 years, and 6.11% thereafter	PPA segmented yield curve rates of 3.64% for the first 5 years, 5.21% for the next 15 years, and 5.94% thereafter	PPA segmented yield curve rates of 3.74% for the first 5 years, 5.35% for the next 15 years, and 6.11% thereafter	PPA segmented yield curve rates of 3.92% for the first 5 years, 5.52% for the next 15 years, and 6.29% thereafter
Salary increase	N/A	N/A	N/A	N/A	N/A
Retirement age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age
Mortality	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2020.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2019.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2018.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2017.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the Internal Revenue Service methodology and projection scale MP-2016.
	2018	2017	2016	2015	
Valuation date	July 1, 2017	July 1, 2016	July 1, 2015	July 1, 2014	
Actuarial cost method	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	Market value including receivables	Market value including receivables	Market value including receivables	
Inflation	2.00%	2.00%	2.00%	2.50%	
Discount rates	PPA segmented yield curve rates of 4.16% for the first 5 years, 5.72% for the next 15 years, and 6.48% thereafter	6.50%	6.50%	7.25%	
Salary increase	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	
Mortality	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2000 mortality tables and projected with improvement to the valuation year plus 7, and 15 years based on Scale AA.	RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP-2016 mortality improvement tables.	RP-2014 mortality tables with future mortality improvement that follows the Mercer Modified MP-2014 mortality improvement scale.	RP-2000 Healthy Annuitant Mortality Tables projected with mortality improvement to the valuation year plus 7 and 15 years based on Scale AA.	

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Shands HealthCare Pension Plan II

June 30, 2021 through June 30, 2023

(in thousands of dollars)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total pension liability:			
Service cost	\$ —	\$ —	\$ —
Interest	52,635	47,994	52,050
Changes of benefit terms	—	—	—
Difference between expected and actual experience	(10,026)	12,769	(819)
Benefit payments	(60,592)	(58,320)	(55,663)
Changes in assumptions	(21,539)	(79,489)	93,520
Net change in total pension liability	(39,522)	(77,046)	89,088
Total pension liability – beginning	893,162	970,208	881,120
Total pension liability – ending (a)	<u>853,640</u>	<u>893,162</u>	<u>970,208</u>
Plan fiduciary net position:			
Employer contributions	16,194	16,116	16,832
Net investment income (loss)	47,969	(226,552)	238,275
Benefit payments	(60,592)	(58,320)	(55,663)
Administrative expense	(5,810)	(4,268)	(5,714)
Net change in plan fiduciary net position	(2,239)	(273,024)	193,730
Plan fiduciary net position – beginning	917,237	1,190,261	996,531
Plan fiduciary net position – ending (b)	914,998	917,237	1,190,261
Net pension (asset) liability – ending (a)-(b)	<u>\$ (61,358)</u>	<u>\$ (24,075)</u>	<u>\$ (220,053)</u>
Plan fiduciary net position as a percentage of total pension liability	107.2%	102.7%	122.7%

Notes to Schedule

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

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

Changes in assumptions 2023:

The investment return assumption was increased from 6.10% to 6.40% to reflect the updated capital market outlook.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Shands HealthCare Pension Plan II

June 30, 2021 through June 30, 2023

Changes in assumptions 2022:

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

Changes in assumptions 2021:

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Schedule of Plan Contributions (Unaudited)

Shands HealthCare Pension Plan II

June 30, 2021 through June 30, 2023

<i>(in thousands of dollars)</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Actuarially determined contribution	\$ —	\$ —	\$ —
Contributions in relation to the actuarially determined contribution	<u>16,194</u>	<u>16,116</u>	<u>16,210</u>
Contribution excess	<u>\$ (16,194)</u>	<u>\$ (16,116)</u>	<u>\$ (16,210)</u>

Notes to Schedule

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

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

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Schedule of Plan Investment Returns (Unaudited)

Shands HealthCare Pension Plan II

June 30, 2021 through June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Annual money-weighted rate of return, net of investment expense	5.5%	(19.0)%	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, 2023

(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	\$ (261)	\$ 3,016	\$ 2,755	\$ 18,330	\$ 21,085	\$ 5,134	\$ 6,481	\$ 11,615	\$ 32,700
Short-term investments	49,251	-	49,251	-	49,251	-	-	-	49,251
Patient accounts receivable, net	302,767	2,112	304,879	1,293	306,172	55,782	191	55,973	362,145
Inventories	48,724	38	48,762	-	48,762	13,432	32	13,464	62,226
Prepaid expenses and other current assets	106,243	311	106,554	1,316	107,870	14,845	860	15,705	123,575
Total current assets	506,724	5,477	512,201	20,939	533,140	89,193	7,564	96,757	629,897
Assets whose use is limited	949,257	-	949,257	-	949,257	196,519	4,830	201,349	1,150,606
Assets whose use is restricted	4,221	-	4,221	-	4,221	14,319	3,103	17,422	21,643
Capital assets, net	1,182,090	43,872	1,225,962	4,287	1,230,249	267,179	466	267,645	1,497,894
Due from (to) affiliates, net	15,573	28	15,601	(9,205)	6,396	2,413	(8,809)	(6,396)	-
Other assets	94,159	-	94,159	319	94,478	27,765	6	27,771	122,249
Total assets	2,752,024	49,377	2,801,401	16,340	2,817,741	597,388	7,160	604,548	3,422,289
Deferred outflows of resources									
Accumulated decrease in fair value of hedging derivatives	5,564	-	5,564	-	5,564	2,254	-	2,254	7,818
Deferred loss on debt refunding	21,796	-	21,796	-	21,796	583	-	583	22,379
Deferred outflows on pension	167,628	-	167,628	-	167,628	-	-	-	167,628
Total deferred outflows of resources	194,988	-	194,988	-	194,988	2,837	-	2,837	197,825
Liabilities									
Current liabilities:									
Long-term debt, current portion	17,299	-	17,299	-	17,299	7,752	-	7,752	25,051
Lease and subscription obligations, current portion	8,865	178	9,043	-	9,043	683	-	683	9,726
Accounts payable and accrued expenses	134,966	751	135,717	5,721	141,438	31,032	145	31,177	172,615
Accrued salaries and leave payable	69,319	12	69,331	60	69,391	13,038	-	13,038	82,429
Estimated third-party payor settlements	142,766	-	142,766	-	142,766	13,371	-	13,371	156,137
Total current liabilities	373,215	941	374,156	5,781	379,937	65,876	145	66,021	445,958
Long-term liabilities:									
Long-term debt, less current portion	899,040	-	899,040	-	899,040	134,628	-	134,628	1,033,668
Lease and subscription obligations, less current portion	40,901	422	41,323	4,287	45,610	5,804	-	5,804	51,414
Other liabilities	13,119	-	13,119	-	13,119	4,392	1	4,393	17,512
Total long-term liabilities	953,060	422	953,482	4,287	957,769	144,824	1	144,825	1,102,594
Total liabilities	1,326,275	1,363	1,327,638	10,068	1,337,706	210,700	146	210,846	1,548,552
Deferred inflows of resources									
Deferred inflows on pension	53,311	-	53,311	-	53,311	-	-	-	53,311
Deferred inflows on leases	24,017	-	24,017	356	24,373	4,761	-	4,761	29,134
Deferred gain on debt refunding	1,510	-	1,510	-	1,510	-	-	-	1,510
Total deferred inflows of resources	78,838	-	78,838	356	79,194	4,761	-	4,761	83,955
Net position									
Net investment in capital assets	224,998	43,272	268,270	-	268,270	116,512	466	116,978	385,248
Restricted									
Nonexpendable	1,077	-	1,077	-	1,077	-	1,183	1,183	2,260
Expendable	519	-	519	291	810	-	1,193	1,193	2,003
Unrestricted	1,315,305	4,742	1,320,047	5,625	1,325,672	268,252	4,172	272,424	1,598,096
Total net position	\$ 1,541,899	\$ 48,014	\$ 1,589,913	\$ 5,916	\$ 1,595,829	\$ 384,764	\$ 7,014	\$ 391,778	\$ 1,987,607

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, 2023

(in thousands of dollars)

	UF Health Shands Hospital Division	UF Health Shands Obligated Group Other	UF Health Shands Obligated Group	UF Health Shands Other	Total UF Health Shands	UF Health Central Florida Obligated Group	UF Health Central Florida Other	Total UF Health Central Florida	Consolidated Total
Operating revenues									
Net patient service revenue, net of provision for bad debts	\$ 2,233,596	\$ 6,202	\$ 2,239,798	\$ 9,643	\$ 2,249,441	\$ 465,041	\$ -	\$ 465,041	\$ 2,714,482
Other operating revenue	30,518	11,439	41,957	5,985	47,942	19,951	4,160	24,111	72,053
Total operating revenues	<u>2,264,114</u>	<u>17,641</u>	<u>2,281,755</u>	<u>15,628</u>	<u>2,297,383</u>	<u>484,992</u>	<u>4,160</u>	<u>489,152</u>	<u>2,786,535</u>
Operating expenses									
Salaries and benefits	944,631	8,675	953,306	5,416	958,722	250,019	99	250,118	1,208,840
Supplies and services	1,151,639	9,274	1,160,913	7,633	1,168,546	210,900	1,898	212,798	1,381,344
Depreciation and amortization	91,831	1,717	93,548	365	93,913	29,616	92	29,708	123,621
Total operating expenses	<u>2,188,101</u>	<u>19,666</u>	<u>2,207,767</u>	<u>13,414</u>	<u>2,221,181</u>	<u>490,535</u>	<u>2,089</u>	<u>492,624</u>	<u>2,713,805</u>
Operating income (loss)	<u>76,013</u>	<u>(2,025)</u>	<u>73,988</u>	<u>2,214</u>	<u>76,202</u>	<u>(5,543)</u>	<u>2,071</u>	<u>(3,472)</u>	<u>72,730</u>
Nonoperating revenues (expenses)									
State appropriations	7,050	-	7,050	-	7,050	-	-	-	7,050
Interest expense	(34,484)	(15)	(34,499)	(6)	(34,505)	(6,568)	-	(6,568)	(41,073)
Net investment income, including change in fair value	60,346	-	60,346	282	60,628	13,412	728	14,140	74,768
Gain (loss) on disposal of capital assets, net	31	-	31	(1)	30	151	-	151	181
Other nonoperating revenues, net	81	-	81	77	158	86	97	183	341
Total nonoperating revenues (expenses), net	<u>33,024</u>	<u>(15)</u>	<u>33,009</u>	<u>352</u>	<u>33,361</u>	<u>7,081</u>	<u>825</u>	<u>7,906</u>	<u>41,267</u>
Excess (deficit) of revenues over expenses before transfers, capital contributions, and other changes in net position	109,037	(2,040)	106,997	2,566	109,563	1,538	2,896	4,434	113,997
Transfers	2,228	(364)	1,864	(1,864)	-	-	-	-	-
Capital contributions	5,298	-	5,298	-	5,298	-	-	-	5,298
Other changes in net position	59	-	59	17	76	(1)	135	134	210
Increase (decrease) in net position	<u>116,622</u>	<u>(2,404)</u>	<u>114,218</u>	<u>719</u>	<u>114,937</u>	<u>1,537</u>	<u>3,031</u>	<u>4,568</u>	<u>119,505</u>
Net position									
Beginning of year	1,425,277	50,418	1,475,695	5,197	1,480,892	383,227	3,983	387,210	1,868,102
End of year	<u>\$ 1,541,899</u>	<u>\$ 48,014</u>	<u>\$ 1,589,913</u>	<u>\$ 5,916</u>	<u>\$ 1,595,829</u>	<u>\$ 384,764</u>	<u>\$ 7,014</u>	<u>\$ 391,778</u>	<u>\$ 1,987,607</u>

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Supplementary Consolidating Information

Year Ended June 30, 2023

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, 2023, and for the year then ended, in conformity with accounting principles generally accepted in the United States, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position and the changes in financial position of the individual companies and is not a required part of the consolidated basic financial statements.

Other Supplementary Information

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidated Statement of Cash Flows for the UFHCF
Obligated Group
(Dollars in Thousands)

Year Ended June 30, 2023

Cash flows from operating activities

Cash received from patients and third-party payors	\$ 449,764
Other receipts from operations	16,476
Payments for salaries and benefits	(251,772)
Payments to suppliers and vendors	(227,201)
Net cash used in operating activities	<u>(12,733)</u>

Cash flows from noncapital financing activities

Other noncapital financing activities	<u>(242)</u>
Net cash used in noncapital financing activities	<u>(242)</u>

Cash flows from capital and related financing activities

Purchase of capital assets	(40,610)
Proceeds from sale of capital assets	173
Principal payments on long-term debt	(7,140)
Principal payments on lease obligations	(231)
Interest payments	(5,973)
Net cash used in capital and related financing activities	<u>(53,781)</u>

Cash flows from investing activities

Investment income received	449
Distributions from unconsolidated affiliates	168
Purchase of short-term investments, assets whose use is limited, and assets whose use is restricted	(18,637)
Sale of short-term investments, assets whose use is limited, and assets whose use is restricted	32,480
Other investing activities	(20)
Net cash provided by investing activities	<u>14,440</u>
Net decrease in cash and cash equivalents	<u>(52,316)</u>

Cash and cash equivalents

Beginning of year	<u>57,450</u>
End of year	<u>\$ 5,134</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Year Ended June 30, 2023

**Reconciliation of operating loss to net cash used in
operating activities**

Operating loss	\$ (5,543)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	29,616
Provision for bad debts	47,370
Changes in:	
Patient accounts receivable	(43,385)
Inventories	(466)
Prepaid expenses and other current assets	(3,945)
Other assets	2,367
Accounts payable and accrued expenses	(12,070)
Accrued salaries and leave payable	(2,966)
Estimated third-party payor settlements	(704)
Medicare advances	(19,635)
Other liabilities	(3,372)
Total adjustments	<u>(7,190)</u>
Net cash used in operating activities	<u>\$ (12,733)</u>

Supplemental noncash investing, capital and financing activities

Capital assets financed through capital lease obligations	
Accrued purchases of capital assets	\$ 2,382
Amortization of lease asset	1,090
Amortization of lease receivable	591

Accompanying Internal Control Over Financial Reporting and Compliance Report



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and fiduciary activities of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries (the Company), a component unit of the University of Florida, which comprise the consolidated basic statement of net position as of June 30, 2023, and the related consolidated basic statements of revenues, expenses and changes in net position and cash flows for the year then ended, the statement of fiduciary net position – defined benefit pension plan as of June 30, 2023, and the related statement of changes in fiduciary net position – defined benefit pension plan for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated September 26, 2023.

Report on Internal Control Over Financial Reporting

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

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

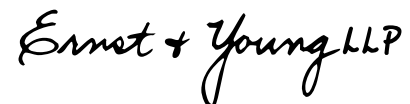
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of This Report

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



September 26, 2023

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