Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Reports on State Financial Assistance in Accordance with Chapter 10.550, State of Florida *Rules of the Auditor General*

June 30, 2017

EIN: 59-1943502

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Introduction

This section of the Shands Teaching Hospital and Clinics, Inc. and Subsidiaries' ("Shands") annual financial report presents Shands' analysis of its financial performance as of and for the year ended June 30, 2017 with comparative information as of and for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements and related note disclosures.

Organization

Shands is an affiliate of the University of Florida ("UF") where by statute the President of UF has the right to appoint and remove members of the Shands Board of Directors. Shands controls or owns various affiliated entities that operate facilities and provide services that are part of Shands.

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

UF Health Shands Hospital is a major tertiary care teaching institution located in Gainesville, Florida, licensed to operate an 895-bed acute care hospital. UF Health Shands Hospital is a leading referral center in the State of Florida and provides clinical settings for medical education and training programs at UF.

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

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

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

Shands Recovery, LLC (d/b/a "UF Health Florida Recovery Center") provides outpatient and residential treatment for alcohol and drug abuse, with on-site leased housing for certain programs.

Property Management leases properties in Gainesville, Florida.

Elder Care of Alachua County, Inc. ("Elder Care"), a Florida not-for-profit corporation, provides social and health care related services to the elderly in Alachua County, Florida, through the operations of a Senior Recreation Center and programs such as Home Delivered Meals and an Alzheimer's Model Day Care Center. Shands is the sole corporate member of Elder Care.

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

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

(d/b/a "Munroe Regional Medical Center") which owns a regional medical center located in Ocala, Florida. CHS manages the operations of the facility and is the majority partner.

Shands has an interest in **Shands/Solantic Joint Venture, LLC** (**d/b/a "CareSpot"**) which owns three walk-in urgent care centers located in Gainesville, Florida. CareSpot manages the operations of the three facilities. In August 2016, Shands sold 0.1% of its ownership interest in CareSpot to Solantic of Orlando, LLC, which results in Shands having a 49.9% minority ownership interest.

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

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

In December 2016, **UF Health South Central, LLC ("South Central")**, a single member entity owned by Shands, acquired property in Marion County, Florida, consisting of two medical office buildings, two vacant lots, and certain medical equipment. In January 2017, South Central commenced business operations at the two medical office buildings. On March 15, 2017, Florida Clinical Practice Association, Inc., a component unit of UF, acquired a 50% membership interest in South Central.

Required Financial Statements

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

The consolidated basic statements of net position reflect all of Shands' assets, liabilities, deferred inflows and outflows and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). Assets, liabilities and deferred activity are presented in a classified format, which distinguishes between their current and long-term time frame. The difference between the assets plus deferred outflows and liabilities plus deferred inflows is reported as "net position."

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

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

Financial Analysis of Shands

Statements of Net Position

The condensed consolidated basic statements of net position present the financial position of Shands as of June 30, 2017, 2016 and 2015 and include all assets, liabilities and deferred inflows and outflows. Net position is one indicator of the current financial condition of Shands. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. They also provide the basis for evaluating the capital structure, as well as assessing the liquidity and financial flexibility of Shands. However, the financial statement user should consider other nonfinancial factors, such as changes in economic conditions, population change, regulations, and government legislation affecting the health care industry, among other factors.

The following table presents Shands' condensed consolidated basic statements of net position as of June 30, 2017, 2016 and 2015:

(in thousands of dollars)	2017	2016	2015
Cash and cash equivalents	$ 28,049	$ 52,930	$ 33,657
Short-term investments	154,768	155,191	150,669
Other current assets	346,018	312,046	288,929
Capital assets, net	981,161	848,106	741,104
Other assets	651,486	681,653	807,227
Total assets	2,161,482	2,049,926	2,021,586
Deferred outflows of resources	137,722	160,097	89,878
Current liabilities	299,461	273,255	231,898
Long-term liabilities	918,224	967,975	919,650
Total liabilities	1,217,685	1,241,230	1,151,548
Deferred inflows of resources	29,364	34,355	89,475
Net position			
Net investment in capital assets	136,616	99,370	60,853
Restricted			
Nonexpendable	253	97	97
Expendable	9,038	9,959	7,646
Unrestricted	906,248	825,012	801,845
Total net position	$ 1,052,155	$ 934,438	$ 870,441

Assets and Deferred Outflows of Resources

During 2017, cash and cash equivalents decreased by $24.9 million, or 47.0%. Cash provided by operating activities was $204.7 million. Other significant sources of cash included $108.8 million from a trustee-held project fund for reimbursement of construction requisitions, $10.4 million of donations and pledge receipts, and a net return of $8.6 million of additional collateral for certain interest rate swaps. Significant cash uses included payments of $66.3 million in support of UF and its medical programs, purchases of capital assets of $182.0 million, principal and interest payments of $49.1 million on outstanding debt, the transfer of $50.0 million in excess cash flows into the Strategic Capital Fund (a component of assets whose use is limited), and $10.1 million for investments in joint venture partnerships (net of dividends received), including the purchase of Shands' interests in SSH and South Central. Short-term investments decreased by $0.4 million, or 0.3%. During 2016, cash and cash equivalents increased by $19.3 million, or 57.3%. Cash provided by operating activities was $204.7 million. In addition, cash increased by $91.9 million due to reimbursement of construction requisitions from a trustee-held project fund. Cash uses included payments of $63.4 million in support of UF and its medical programs, purchases of capital assets of $137.8 million, principal and interest payments of $56.0 million on outstanding debt, and posting of additional collateral of $13.0 million for certain interest rate swaps. In addition, the Series 2016A Series Bonds were issued to advance refund the Series 2008D1 Bonds and Series 2008D2 Bonds (see "Advance Refunding"). Short-term investments increased by $4.5 million, or 3.0%, as funds generated from operations were invested in anticipation of future working capital needs.

Other current assets, including net patient accounts receivable, inventories, prepaid expenses and other current assets, and assets whose use is limited, current portion increased in 2017 by $34.0 million, or 10.9%. Patient accounts receivable, net increased by $31.7 million primarily due to volume growth, increased payment rates for certain payors, and an increase in the average time to collect on patient accounts. Inventories increased by $2.4 million due to increased surgical and endoscopy inventory. Prepaid expenses and other current assets decreased by $2.9 million due to a decrease in non-patient receivables, and assets whose use is limited, current portion increased by $2.8 million. In 2016, other current assets, including net patient accounts receivable, inventories, prepaid expenses and other current assets, and assets whose use is limited, current portion increased by $23.1 million, or 8.0%. Patient accounts receivable, net increased by $22.7 million due to a variety of factors including volume growth, increased payment rates driven by higher case mix intensity and lower than expected collections on receivables, which resulted in an increase in receivable days outstanding. Inventory balances increased by $0.9 million. Prepaid expenses and other current assets decreased by $0.5 million.

In 2017, Capital assets, net, increased by $133.1 million, or 15.7% reflecting purchases of $182.0 million, partially offset by depreciation and amortization expense of $55.8 million. Capital purchases included $127.9 million in construction costs for the new hospitals (see "New Hospitals Project"). Other significant capital activity included assets acquired through installment debt financing of $4.1 million, $9.9 million in capitalized interest, and a decrease of $7.5 million in retainage and construction payables. In 2016, capital assets, net, increased by $107.0 million, or 14.4% reflecting purchases of $137.8 million, which included $104.1 million in construction costs for the new hospitals. Other significant capital activity included increases of $17.0 million in retainage and construction payables and $9.8 million in capitalized interest, partially offset by depreciation and amortization expense of $57.4 million.

Other assets decreased in 2017 by $30.2 million, or 4.4%, primarily due to a decrease of $119.2 million in assets whose use is restricted partially offset by an increase of $84.6 million in assets whose use is limited, less current portion. The decrease in assets whose use is restricted is primarily associated with $108.8 million of payments from the trustee-held project fund as reimbursement for certain capital purchases and a $8.1 million decrease in funds held as collateral on certain interest rate swaps in a liability position. The increase in assets whose use is limited, less current portion is due to a $87.6 million increase in board designated funds for capital needs and other health programs partially offset by a $3.0 million decrease in board designated funds for post-retirement benefits resulting from the termination of a Shands' sponsored retiree medical plan, effective December 31, 2016. In 2016, other assets decreased by $125.6 million, or 15.6%, primarily due to decreases of $78.7 million in assets whose use is restricted and $61.0 million in other assets, partially offset by an increase of $14.3 million in assets whose use is limited, less current portion. The decrease in assets whose use is restricted is primarily due to a decrease of $89.6 million in the trustee-held project fund and the application of $4.3 million of debt service reserve funds towards the advance refunding of the Series 2008D1 Bonds and Series 2008D2 Bonds, partially offset by an increase of $13.0 million in additional collateral requirements on certain interest rate swaps in a liability position. The decrease in other assets is primarily due to a decrease of $54.2 million in the pension asset associated with the defined benefit ("DB") pension plan and a $17.7

million reduction in the note receivable due from Shands Jacksonville Medical Center, Inc. ("SJMC") (see "Other Changes in Net Position"), partially offset by an $11.6 million increase in fair value for interest rate swaps in an asset position. The increase in assets whose use is limited, less current portion is due to increases in board designated funds for capital needs, post-retirement benefits, and other health programs.

Deferred outflows of resources decreased in 2017 by $22.4 million, or 14.0%. The decrease is attributable to a $23.2 million improvement in the fair value (decrease in liability) of the hedged interest rate swaps, partially offset by a $0.9 million increase in deferred outflows on pension due to the net differences between projected and actual earnings on pension plan investments and the net impact of changes in actuarial assumptions, actuarial experience and plan contribution levels. In 2016, deferred outflows of resources increased by $70.2 million, or 78.1%, primarily due to an increase of $45.9 million in deferred outflows on pension along with an increase of $24.4 million due to a decline in the fair value of the hedged interest rate swaps. The increase in deferred outflows on pension resulted from the net impact of actuarial assumption changes of $51.1 million (largely due to mortality assumptions) partially offset by actuarial experience of $3.3 million and a net reduction of $1.9 million in plan contribution levels.

Liabilities, Deferred Inflows of Resources and Net Position.

Current liabilities increased in 2017 by $26.2 million, or 9.6%, primarily due to increases of $32.8 million in estimated third-party payor settlements and $5.4 million in accrued salaries and leave payable partially offset by a decrease of $12.2 million in accounts payable and accrued expenses. The increase in estimated third-party payor settlements is primarily due to changes in estimates to prior year settlement amounts based on recent third-party payor cost report audits, resulting in increased liabilities. The increase in accrued salaries and leave payable and the decrease in accounts payable and accrued expenses are due to the timing of the regular payment cycles for employee and vendor payments. In 2016, current liabilities increased by $41.4 million, or 17.8%, primarily due to increases of $35.6 million in accounts payable and accrued expenses, $5.2 million in accrued salaries and leave payable, and $7.3 million in estimated third-party payor settlements, partially offset by a decrease of $6.7 million in long-term debt, current portion. The increase in accounts payable and accrued expenses is primarily due to increases in patient volume, the timing of the regular payment cycle, as well as increases in retainage payable and other accrued expenses. The increase in estimated third-party payor settlements is primarily due to changes in estimates to prior year settlement amounts. The decrease in long-term debt, current portion is due to the final maturity of the Series 2010B Bonds in December 2015.

Long-term liabilities decreased in 2017 by $49.8 million, or 5.1%, due to an improvement of $23.2 million in the fair value of interest rate swaps in a liability position, the termination of an interest rate swap in a liability position (fair value of $10.7 million), principal payments on debt of $16.3 million including both current and long-term portions, and a decrease of $3.3 million in other post-retirement benefits liability (due to the termination of the retiree medical plan previously mentioned). In 2016, long-term liabilities increased by $48.3 million, or 5.3%, due to a decline of $26.3 million in the fair value of interest rate swaps in a liability position and an increase of $36.0 million in the DB pension plan liability partially offset by principal payments on debt of $22.7 million including both current and long-term portions.

Deferred inflows of resources decreased in 2017 by $5.0 million, or 14.5%, primarily due to a decrease of $4.8 million in deferred inflows on pension due to the net differences between projected and actual earnings on pension plan investments and the net impact of changes in actuarial assumptions and experience. In 2016, deferred inflows of resources decreased by $55.1 million, or 61.6%, due to a decrease of $47.3 million in deferred inflows on pension due to the net differences between projected and actual earnings on pension plan investments and a decrease of $7.8 million in the deferred gain on debt refunding primarily due to the advance refunding of the Series 2008D1 Bonds and Series 2008D2 Bonds.

Total net position increased in 2017 by $117.7 million, or 12.6%, due to an excess margin of $178.6 million and capital contributions of $6.2 million partially offset by transfers and expenditures in support of UF and its medical programs of $66.3 million. In 2016, total net position increased by $64.0 million, or 7.4%, due to an excess margin of $142.1 million, capital contributions of $0.7 million, and other changes in net position of $2.3 million, partially offset by transfers and expenditures in support of UF and its medical programs of $63.4 million and other transfers of $17.7 million resulting from the reduction in the note receivable due from SJMC (see "Other Changes in Net Position").

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, 2017, 2016 and 2015:

(in thousands of dollars)	**2017**	**2016**	**2015**
Net patient service revenue	$ 1,404,889	$ 1,337,704	$ 1,262,058
Other operating revenue	19,702	20,452	18,844
Total operating revenues	1,424,591	1,358,156	1,280,902
Operating expenses	1,269,336	1,219,170	1,147,499
Operating income	155,255	138,986	133,403
Nonoperating revenues, net	23,355	3,148	933
Excess of revenues over expenses	178,610	142,134	134,336
Other changes in net position			
Transfers and expenditures in support of the University of Florida and its medical programs	(66,328)	(63,416)	(66,533)
Other transfers	-	(17,688)	-
Capital contributions	6,200	654	6,433
Other changes in net position	(765)	2,313	(223)
Increase in net position	117,717	63,997	74,013
Net position			
Beginning of year	934,438	870,441	796,428
End of year	$ 1,052,155	$ 934,438	$ 870,441

Operating Revenues

Total operating revenues increased in 2017 and 2016 by $66.4 million, or 4.9%, and $77.3 million, or 6.0%, respectively. The increases in both years were due to increased net patient service revenue.

During 2017, net patient service revenue increased by $67.2 million, or 5.0%, reflecting increases in admissions of 0.4% and outpatient visits of 3.2%, as well as inflationary payment rate increases across various third-party payors. In 2016, net patient service revenue increased by $75.6 million, or 6.0%, reflecting increases in admissions of 1.7% and outpatient visits of 7.6%, and an increase of 4.1% in case mix intensity.

Other operating revenue decreased by $0.8 million, or 3.7% in 2017 and increased by $1.6 million, or 8.5% in 2016. The changes in both years are primarily due to changes in revenue from organ transplant related services.

Operating Expenses

Operating expenses increased in 2017 by $50.2 million, or 4.1%. Salaries and benefits increased by $26.6 million, or 4.5%. Salaries expense increased by $24.6 million, or 5.5%, reflecting a 3.2% increase in staffing levels due to volume increases, and a 2.5% increase in average wages. Benefits expense increased by $2.0 million, or 1.4%, primarily due to increases in benefits expense related to staffing level increases ($5.3 million), partially offset by a one-time expense reduction of $3.3 million resulting from the termination of the retiree medical plan previously mentioned. Supplies and services increased by $25.2 million, or 4.4%, resulting from the increased patient volume, including an increase in surgical cases, and inflationary cost increases associated with certain drugs and other medical supplies. Depreciation and amortization expense decreased by $1.6 million, or 2.7% due to timing of capital purchases and the increase in construction in progress related to the new hospitals. In 2016, operating expenses increased by $71.7 million, or 6.2%. Salaries and benefits increased by $42.6 million, or 7.8%. Salaries expense increased by $15.5 million, or 3.6%, reflecting increases in staffing levels due to volume increases, and average wage increases. Benefits expense increased by $27.1 million, or 23.6%, primarily due to a $25.4 million increase in DB pension expense. The increase in expense was largely due to the implementation of new mortality tables and a decrease in the investment return assumption. Supplies and services increased by $28.3 million, or 5.2%, resulting from increased patient volume and inflationary cost increases associated with certain drugs. Depreciation and amortization expense increased by $0.8 million, or 1.3%.

Nonoperating Revenues, net

Nonoperating revenues, net increased in 2017 by $20.2 million and includes income from investments (including changes in the fair value of investments and non-hedging interest rate swaps), interest expense and other nonoperating revenues, net. Investment income, net increased by $13.8 million primarily due to an increase of $20.3 million in the fair value of investments and an increase of $4.1 million in realized capital gains on investments, partially offset by a $10.1 million decrease in the change in fair value of non-hedging interest rate swaps. The fair value of investments can vary significantly from year to year due to variability in the financial markets. Interest expense decreased by $1.2 million, largely due to current savings associated with the May 2016 advance refunding of the Series 2008 D1 Bonds and Series 2008 D2 Bonds through the issuance of the Series 2016A Bonds (See "Advance Refunding"). All other nonoperating revenues, net increased by $5.3 million. The increase in other nonoperating revenues, net was primarily due to improved joint venture results as the 2016 amount was negatively impacted by a non-recurring adjustment of $6.6 million. In 2016, nonoperating revenues, net increased by $2.2 million. Investment income, net increased by $2.3 million due to increased interest and dividends. The change in fair value of investments increased by $6.2 million and realized capital gains on investments decreased by $3.2 million due to variability in the financial markets. The change in fair value of derivative instruments, which include non-hedging interest rate swaps, increased by $9.5 million. Interest expense decreased by $2.3 million, largely due to lower bond issuance costs incurred on the Series 2016A Bonds of $0.2 million compared to the issuance costs incurred on the Series 2014A Bonds and Series 2014B Bonds of $2.7 million issued in 2015 (see "Issuance of New Debt"). All other nonoperating revenues, net decreased by $14.9 million. The decrease in other nonoperating revenues, net was due in part to lower joint venture income due to a non-cash adjustment of $6.6 million to the investment balance.

Other Changes in Net Position

Transfers and expenditures in support of UF and its medical programs increased in 2017 by $2.9 million, or 4.6%. Other transfers decreased by $17.7 million due to the net impact of the transactions with SJMC described below. Capital contributions increased by $5.5 million reflecting the release of restrictions in

2017 on $6.2 million of capital donations previously reflected as temporarily restricted donations. Other changes in net position decreased by $3.1 million primarily due to the release of the temporarily restricted capital donations, partially offset by additional temporarily restricted donations received and increased pledges of $3.1 million. In 2016, transfers and expenditures in support of UF and its medical programs decreased by $3.1 million, or 4.7%. Other transfers increased by $17.7 million due to the net impact of the transactions with SJMC described below. Capital contributions decreased by $5.8 million reflecting the release of restrictions in 2015 on $6.0 million of capital donations previously reflected as temporarily restricted. Other changes in net position increased by $2.5 million primarily due to temporarily restricted donations received as well as increased pledges.

At June 30, 2015, Shands had a note receivable of $35.8 million due from SJMC. The original note amount was $42.3 million to be paid in quarterly installments of $0.8 million including interest of 4.5%, maturing on October 1, 2030. The current portion of the note receivable of $1.6 million was included within prepaid expenses and other current assets and the long-term portion of the note receivable of $34.2 million at June 30, 2015 was included within other assets in the accompanying consolidated basic statement of net position. The quarterly payment due July 1, 2015 was made, leaving a net receivable balance of $35.4 million. On September 30, 2015, after assessment of each organization's financial position, Shands' Board of Directors agreed to reduce the note receivable due from SJMC by $17.7 million, effective July 1, 2015. Beginning with the payment due on October 1, 2015, quarterly installments of principal and interest were revised to $0.4 million, with the interest rate and maturity date remaining unchanged. At its meeting on September 28, 2015, the SJMC Board of Directors agreed to the same action.

Previously, SJMC was allowed to pay for its share of electronic medical record system implementation costs over time on an interest-free basis. The amount due from SJMC was $6.1 million as of June 30, 2015 and was included in prepaid expenses and other current assets in the consolidated basic statement of net position. On September 25, 2015, SJMC offered, and Shands accepted, application of an interest rate of 3% to the monthly amounts outstanding back to July 2011 through June 2015. The impact of this action was to increase prepaid expenses and other current assets and increase net position for interest earned from inception of the arrangement through June 30, 2015 by $1.6 million.

The net impact of the above actions decreased Shands' net position by $16.1 million. At June 30, 2017, Shands has a remaining note receivable of $16.2 million due from SJMC. The current portion of the note receivable of $0.9 million is included within prepaid expenses and other current assets and the long-term portion of the note receivable of $15.3 million is included within other assets in the accompanying consolidated basic statement of net position. Amounts related to the electronic medical record system implementation have been paid in full.

Patient Volumes

The following tables present the associated volumes of each facility on a comparative basis for the years ended 2017, 2016 and 2015.

	2017	2016	Net Change	% Change	2015	Net Change	% Change
Inpatient Admissions (1)							
UF Health Shands Hospital	50,734	50,672	62	0.1%	50,004	668	1.3%
UF Health Shands Psychiatric Hospital	3,555	3,398	157	4.6%	3,207	191	6.0%
UF Health Shands Rehab Hospital	1,014	1,021	(7)	-0.7%	945	76	8.0%
Total	55,303	55,091	212	0.4%	54,156	935	1.7%
Outpatient Visits (2)							
UF Health Shands Hospital	966,450	933,532	32,918	3.5%	862,991	70,541	8.2%
UF Health Shands Psychiatric Hospital (3)	1,378	1,236	142	11.5%	13,183	(11,947)	-90.6%
UF Health Shands Rehab Hospital	293	1,131	(838)	-74.1%	721	410	56.9%
UF Health Florida Recovery Center (3)	23,746	25,381	(1,635)	-6.4%	16,308	9,073	N/A
Total	991,867	961,280	30,587	3.2%	893,203	68,077	7.6%

(1) Includes inpatient and observation cases
(2) Includes emergency room and trauma visits
(3) For the five month period July 1, 2014 to November 30, 2014, UF Health Shands Psychiatric Hospital reported 11,324 visits for activity that UF Health Florida Recovery Center began reporting effective December 1, 2014.

During 2017, inpatient admissions increased by 0.4% and outpatient visits increased by 3.2%. During 2016, inpatient admissions increased by 1.7% and outpatient visits increased by 7.6%

Statements of Cash Flows

The consolidated basic statements of cash flows provide additional information in regard to Shands' financial results by reporting the major sources and uses of cash. During 2017, cash and cash equivalents decreased by $24.9 million, or 47.0%. Cash provided by operating activities was $204.7 million. Other significant sources of cash included $108.8 million from a trustee-held project fund for reimbursement of construction requisitions, $10.4 million of donations and pledge receipts, and a net return of $8.6 million of additional collateral for certain interest rate swaps. Significant cash uses included payments of $66.3 million in support of UF and its medical programs, purchases of capital assets of $182.0 million, principal and interest payments of $49.1 million on outstanding debt, the transfer of $50.0 million in excess cash flows into the Strategic Capital Fund (a component of assets whose use is limited), and $10.1 million for investments in joint venture partnerships (net of dividends received), including the purchase of Shands' interests in SSH and South Central. Shands also funded the DB pension plan by $6.0 million in excess of pension expense as management proactively works toward improving the plan's funded status.

During 2016, cash and cash equivalents increased by $19.3 million, or 57.3%. Cash inflows were primarily a result of cash provided by operating activities of $204.7 million and reimbursements of $91.9 million from a trustee-held project fund. Cash outflows include payments of $63.4 million in support of UF and its medical programs, acquisition of capital assets of $137.8 million, and principal and interest payments of $56.0 million on outstanding debt. Shands also funded the DB pension plan by $2.9 million in excess of pension expense.

Defined Benefit Pension Plan Funded Status

As of June 30, 2017, the funded status (as measured under ERISA funding rules) was 75.8%, an increase from 65.0% as of June 30, 2016. The increase in the funded status is largely due to improved financial market conditions and rising interest rates. As of June 30, 2016, the funded status was 65.0%, down from 75.1% as of June 30, 2015. To help improve the funded status and lower the cost of plan administration, management offered a lump-sum payment option to terminated vested plan participants. In June 2016, a total of 1,050 plan participants received lump-sum payments totaling $51.8 million, eliminating $75.2 million in actuarially determined plan obligations.

Advance Refunding

In May 2016, the Alachua County Health Facilities Authority ("Authority") issued the Series 2016A Bonds in the amount of $46.6 million on behalf of Shands, to advance refund the Series 2008D1 Bonds of $21.7 million and Series 2008D2 Bonds of $22.6 million. The proceeds of the Series 2016A Bonds and debt service reserve funds of $4.4 million were used to purchase U.S. government securities, to be held in an irrevocable trust to meet the debt service on the refunded bonds through December 1, 2018, and to pay issuance costs of $0.2 million. In connection with the transaction, a deferred outflow of $7.0 million was recorded (to be amortized over the life of the new debt) which includes the unamortized bond discount of $0.5 million related to the refunded debt. The interest rate on the Series 2016A Bonds is fixed at 2.15%. Shands advance refunded the Series 2008D1 Bonds and Series 2008D2 Bonds to reduce its total debt service payments over the next 14.5 years by $10.9 million and to obtain an economic gain (difference between the present value of the debt service on the new debt and the refunded debt) of $9.2 million.

Issuance of Debt

In October 2014, the Authority, on behalf of Shands, issued Series 2014A Bonds ($250.0 million) and Series 2014B Bonds ($50.0 million). The bond proceeds of $322.4 million, which included bond premium of $22.4 million, were placed in a trustee-held fund; $2.7 million of the proceeds were used to pay issuance costs, with $100.0 million used to reimburse Shands for amounts already expended for capital assets. The remaining proceeds in the trustee-held fund are being used exclusively for the construction of the UF Health Heart and Vascular Hospital and the UF Health Neuromedicine Hospital. As of June 30, 2017, there was no remaining balance in the trustee-held fund, reflecting the cumulative net impact of reimbursement requests ($224.9 million) and interest income ($5.2 million). The Series 2014A bonds are comprised of $25.4 million in serial bonds maturing on dates in December 2025 through December 2036 at a fixed rate of 5% and $224.6 million in term bonds with $50.0 million at a fixed rate of 4% and $174.6 million at a fixed rate of 5%, maturing in December 2044. The Series 2014B bonds are comprised of $50.0 million in serial bonds maturing in December 2034 at a fixed rate of 5%. Both of the series are tax exempt and unenhanced.

Debt Outstanding

As of June 30, 2017, Shands had $842.4 million in debt outstanding compared to $855.6 million at June 30, 2016. Long-term debt is comprised of tax exempt bond issues, taxable notes, and installment debt. Shands utilizes interest rate swaps in order to synthetically convert certain variable rate bonds to fixed rate bonds. Including the effect of the interest rate swaps, 86% of Shands' bonds and notes outstanding are fixed while 14% are variable. The Series 1996A Bonds reached final maturity in December 2016. The Series 2007A and Series 2007B Bonds, the Series 2008A Bonds, and the Series 2008C Bonds are variable rate bonds with fixed rate payor interest rate swaps, which synthetically convert them to fixed rate bonds. The Series 2014A Bonds, Series 2014B Bonds, and Series 2016A Bonds are unenhanced fixed rate bonds. The Series 2010A Bonds and the Series 2012A Bonds and

Series 2012B Bonds are variable rate bonds. The Series 2013A Taxable Notes and the 2012 Bank Note are taxable fixed rate notes.

As of June 30, 2016, Shands had $855.6 million in debt outstanding compared to $876.6 million at June 30, 2015.

New Hospitals Project

Construction is continuing on the UF Health Heart and Vascular Hospital and the UF Health Neuromedicine Hospital. The new hospitals are being constructed on property adjacent to the UF Health Cancer Hospital on the campus of UF Health Shands Hospital in Gainesville, Florida. This project will include a new 9-floor building with 538,000 gross square feet of space. The building is expected to house the following facilities and services:

- 216 private patient beds, including 120 ICU/IMC beds and 96 acute care beds. Located on the patient floors will be a 6 bay inpatient dialysis suite, rehab therapy gym, CT scanner, satellite pharmacy, and a blood gas lab.
- an operating suite with 10 general ORs, 5 hybrid ORs, 1 intraoperative MRI, 5 Cath labs, 16 recovery bays, 38 pre/post-op rooms, blood dispensing station, and a gross pathology lab.
- ambulatory clinic space for Cardiovascular services and Neuromedicine services, a pre-operative clinic, a blood draw station, neurodiagnostic testing and heart and vascular ancillary services.
- a new radiology department with 3 CT scanners (1 located in neuro ICU), 2 MRIs, 2 general radiology rooms, 1 ultrasound room, and 1 fluoroscopy room.

The estimated cost of this project is $400 million, excluding financing costs and capitalized interest. The project is expected to be completed and placed in service in December 2017. There is no certificate of need approval necessary for this project. Total project costs incurred as of June 30, 2017, excluding financing costs and capitalized interest was $279.5 million.

Credit Ratings

In March 2017, Standard & Poor's affirmed their previous underlying credit ratings of A- and indicated a "Stable" outlook on all of Shands' rated debt. In November 2016, Moody's Investor Services affirmed their previous underlying credit ratings of A3 and indicated a "Stable" outlook on all of Shands' rated debt.

Report of Independent Certified Public Accountants

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

Report on the Consolidated Basic Financial Statements

We have audited the accompanying consolidated basic financial statements of Shands Teaching Hospital and Clinics, Inc. and its subsidiaries ("Shands"),a component unit of the University of Florida, which comprise the consolidated basic statements of net position as of June 30, 2017 and 2016, and the related consolidated basic statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the consolidated basic financial statements.

Management's Responsibility for the Consolidated Basic Financial Statements

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

Independent Certified Public Accountants' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated basic financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated basic financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Shands' preparation and fair presentation of the consolidated basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Shands' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated basic financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, 4040 West Boy Scout Boulevard, Suite 1000, Tampa, FL 33607-5745
T: (813) 229 0221, F: (813) 229 3646, www.pwc.com/us

Opinion

In our opinion, the consolidated basic financial statements referred to above present fairly, in all material respects, the financial position of Shands Teaching Hospital and Clinics, Inc. and its subsidiaries as of June 30, 2017 and 2016, and results of their operations, changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The accompanying management's discussion and analysis ("MD&A") (unaudited) on pages 1 through 11, the schedule of changes in the net pension liability and related ratios (unaudited) on page 54, and the schedule of employer contributions (unaudited) on page 55 are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The consolidating information on pages 56 through 59 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements as a whole. The accompanying schedule of expenditures of state financial assistance for the year ended June 30, 2017 is presented for purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the consolidated basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the consolidated basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017 on our consideration of Shands' 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 for the year ended June 30, 2017. The purpose of that report is 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 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 Shands' internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

September 28, 2017

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statements of Net Position
June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 28,049	$ 52,930
Short-term investments	154,768	155,191
Patient accounts receivable, net of allowance for uncollectibles of $53,276 and $70,521, respectively	242,734	211,011
Inventories	17,511	15,153
Prepaid expenses and other current assets	47,750	50,680
Assets whose use is limited, current portion	38,023	35,202
Total current assets	528,835	520,167
Assets whose use is limited, less current portion	517,902	433,276
Assets whose use is restricted	39,910	159,135
Capital assets, net	981,161	848,106
Other assets	93,674	89,242
Total assets	2,161,482	2,049,926
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	49,013	72,224
Deferred loss on debt refunding	376	416
Deferred outflows on pension	88,333	87,457
Total deferred outflows of resources	137,722	160,097
Liabilities		
Current liabilities		
Long-term debt, current portion	17,200	17,034
Capital lease obligations, current portion	271	214
Accounts payable and accrued expenses	110,177	122,330
Accrued salaries and leave payable	62,050	56,677
Estimated third-party payor settlements	109,763	77,000
Total current liabilities	299,461	273,255
Long-term liabilities		
Long-term debt, less current portion	825,222	838,652
Capital lease obligations, less current portion	1,852	756
Other liabilities	91,150	128,567
Total long-term liabilities	918,224	967,975
Total liabilities	1,217,685	1,241,230
Deferred inflows of resources		
Deferred gain on debt refunding	2,732	2,936
Deferred inflows on pension	26,632	31,419
Total deferred inflows of resources	29,364	34,355
Net position		
Net investment in capital assets	136,616	99,370
Restricted		
Nonexpendable	253	97
Expendable	9,038	9,959
Unrestricted	906,248	825,012
Total net position	$ 1,052,155	$ 934,438

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of $84,644 and $135,847, respectively	$ 1,404,889	$ 1,337,704
Other operating revenue	19,702	20,452
Total operating revenues	1,424,591	1,358,156
Operating expenses		
Salaries and benefits	614,001	587,434
Supplies and services	599,540	574,379
Depreciation and amortization	55,795	57,357
Total operating expenses	1,269,336	1,219,170
Operating income	155,255	138,986
Nonoperating revenues (expenses)		
State appropriations	7,050	7,050
Interest expense	(21,728)	(22,966)
Net investment income, including change in fair value	36,758	23,006
Gain (loss) on disposal of capital assets, net	363	(138)
Other nonoperating revenues (expenses), net	912	(3,804)
Total nonoperating revenues, net	23,355	3,148
Excess of revenues over expenses before transfers, capital contributions, and other changes in net position	178,610	142,134
Transfers and expenditures in support of the University of Florida and its medical programs	(66,328)	(63,416)
Other transfers	-	(17,688)
Capital contributions	6,200	654
Other changes in net position	(765)	2,313
Increase in net position	117,717	63,997
Net position		
Beginning of year	934,438	870,441
End of year	$ 1,052,155	$ 934,438

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows
Years Ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 1,406,467	$ 1,324,154
Other receipts from operations	21,306	16,727
Salaries and benefits paid to employees	(617,868)	(584,665)
Payments to suppliers and vendors	(605,183)	(551,526)
Net cash provided by operating activities	204,722	204,690
Cash flows from noncapital financing activities		
Payments received on notes receivable	1,674	3,049
Payments in support of the University of Florida and its medical programs	(66,328)	(63,416)
Donations and pledge receipts	10,388	10,605
Other noncapital financing activities	(8,871)	(8,265)
Net cash used in noncapital financing activities	(63,137)	(58,027)
Cash flows from capital and related financing activities		
Purchase of capital assets	(182,014)	(137,813)
Proceeds from sale of capital assets	2	51
Proceeds from issuance of long-term debt	-	46,600
Advance refunding of debt	-	(52,085)
Payments of debt issuance costs	-	(218)
Payments of long-term debt	(16,316)	(22,747)
Interest payments	(32,831)	(33,263)
Return (posting) of collateral on interest rate swaps	8,584	(13,029)
Capital contributions	6,200	654
Reimbursement from trustee-held project fund	108,828	91,901
Net cash used in capital and related financing activities	(107,547)	(119,949)
Cash flows from investing activities		
Investment income received	10,983	11,444
Investment in joint venture, net of dividends received	(10,068)	-
Purchase of short-term investments and assets whose use is limited	(232,000)	(162,000)
Purchase of assets whose use is restricted	(41,448)	(58,938)
Sale of short-term investments and assets whose use is limited	157,940	141,686
Sale of assets whose use is restricted	51,845	52,222
Other investing activity	3,829	8,145
Net cash used in investing activities	(58,919)	(7,441)
Net (decrease) increase in cash and cash equivalents	(24,881)	19,273
Cash and cash equivalents		
Beginning of year	52,930	33,657
End of year	$ 28,049	$ 52,930

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows
Years Ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 155,255	$ 138,986
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	55,795	57,357
Provision for bad debts	84,644	135,847
Changes in:		
Patient accounts receivable	(115,830)	(160,081)
Inventories	(2,358)	(937)
Prepaid expenses and other current assets	9,626	16,313
Other assets	(6,529)	3,008
Accounts payable and accrued expenses	(5,510)	30,008
Accrued salaries and leave payable	5,372	5,226
Estimated third-party payor settlements	32,763	7,302
Other liabilities	(8,506)	(28,339)
Total adjustments	49,467	65,704
Net cash provided by operating activities	$ 204,722	$ 204,690
Supplemental noncash investing, capital and financing activities		
Capital assets financed through capital lease and installment debt	$ 4,062	$ -
Accrued purchases of capital assets	20,253	26,955

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

1. Organization

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

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

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

- **UF Health Shands Hospital** is a major tertiary care teaching institution located in Gainesville, Florida, licensed to operate an 895-bed acute care hospital. UF Health Shands Hospital is a leading referral center in the State of Florida and provides clinical settings for medical education and training programs at UF.
- **UF Health Shands Psychiatric Hospital** is a psychiatric and substance abuse facility located in Gainesville, Florida, licensed to operate 81 beds, of which 63 are psychiatric and 18 are substance abuse.
- **UF Health Shands Rehab Hospital** is a 40-bed rehabilitation hospital located in Gainesville, Florida.
- **UF Health Shands HomeCare** is a hospital-based home care agency providing home care services to the residents of north central Florida.
- **Shands Recovery, LLC (d/b/a "UF Health Florida Recovery Center")** provides outpatient and residential treatment for alcohol and drug abuse, with on-site leased housing for certain programs.
- **Property Management** leases properties in Gainesville, Florida.
- **Elder Care of Alachua County, Inc. ("Elder Care")**, a Florida not-for-profit corporation, provides social and health care related services to the elderly in Alachua County, Florida, through the operations of a Senior Recreation Center and programs such as Home Delivered Meals and an Alzheimer's Model Day Care Center. Shands is the sole corporate member of Elder Care.
- **Southeastern Healthcare Foundation, Inc. ("Foundation")**, a Florida not-for-profit corporation, provides charitable aid to UF and to Shands and owns and leases various rental properties in Florida. Shands is the sole corporate member of the Foundation.

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

2. Summary of Significant Accounting Policies

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

Basis of Presentation

The accompanying consolidated basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board ("GASB"), on the accrual basis of accounting and include the accounts of Shands and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Tax Status

Shands and its subsidiaries are exempt from federal income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income taxes pursuant to Chapter 220 of the Florida Statutes.

Cash and Cash Equivalents

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

Investments

Investments primarily consist of domestic and global fixed income funds, global equity funds, high yield funds, hedge funds, Florida Treasury Investment Pool Special Purpose Investment Account, and a private equity partnership.

Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in nonoperating revenues when earned.

Assets Whose Use is Limited

Assets whose use is limited is comprised of assets designated for specific purposes by the Board. The Board retains control of these assets and may, at its discretion, subsequently designate their use for other purposes. Amounts required to meet current liabilities are reported as current assets.

Assets Whose Use is Restricted

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

Inventories

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

Pledges Receivable
Pledges receivable represent donor commitments to provide future funding, primarily in association with various capital construction projects at Shands and are generally due over the next three years. Pledges receivable are recorded net of an estimated reserve for uncollectible pledges. The current portion of pledges receivable is reported in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position. The long-term portion of pledges receivable is reported in other assets in the accompanying consolidated basic statements of net position. For the years ended June 30, 2017 and 2016, pledge discount rates range from 0.6% to 4.8%.

Capital Assets
Capital assets are recorded at historical cost at date of purchase or at the acquisition value at date of donation. Buildings and equipment under capital leases are stated at the present value of minimum lease payments at the inception of the lease. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity or extend the useful life of an asset are capitalized. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is computed using the straight-line method over the estimated useful lives of the related depreciable assets as recommended by the American Hospital Association. Buildings and equipment under capital leases are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statements of revenues, expenses and changes in net position. Gains and losses on disposition are recorded in the year of disposal and are reported as nonoperating revenues (expenses) in the accompanying consolidated basic statements of revenues, expenses and changes in net position.

Joint Ventures
Shands has a 40% minority interest in Lake Shore HMA, LLC, Starke HMA, LLC, and Live Oak HMA, LLC which own or lease three rural community hospitals (Shands Lake Shore located in Lake City, Florida; Shands Starke located in Starke, Florida; and Shands Live Oak located in Live Oak, Florida). Community Health Systems, Inc. ("CHS") is the majority partner and manages the operations of the three facilities. Shands accounts for the investment under the equity method of accounting. At June 30, 2017 and 2016, an investment of approximately $5,573,000 and $6,545,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net position. For the years ended June 30, 2017 and 2016, an investment loss of approximately $972,000 and $7,759,000, respectively, was recorded in other nonoperating revenues, net, in the accompanying consolidated basic statements of revenues, expenses and changes in net position.

Shands has a 5% minority interest in Munroe HMA Holdings, LLC (d/b/a "Munroe Regional Medical Center") which owns a regional medical center located in Ocala, Florida. CHS manages the operations of the medical center and is the majority owner. Shands accounts for the investment under the cost method of accounting. At June 30, 2017 and 2016, an investment of approximately $10,000,000 and $10,750,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net position. For the years ended June 30, 2017 and 2016, an investment (loss) gain of approximately ($412,000) and $124,000, respectively, was recorded in other nonoperating revenues, net, in the accompanying consolidated basic statements of revenues, expenses and changes in net position. The investment loss reported for the year ended June 30, 2017 is net of a cash distribution of $338,000.

Shands has an interest in Shands/Solantic Joint Venture, LLC (d/b/a “CareSpot”) which owns three walk-in urgent care centers located in Gainesville, Florida. CareSpot manages the operations of the three facilities. In August 2016, Shands sold 0.1% of its ownership interest in CareSpot to Solantic of Orlando, LLC for approximately $6,000, resulting in Shands having a 49.9% minority ownership interest. Shands accounts for the investment in CareSpot under the equity method of accounting. At June 30, 2017 and 2016, an investment of approximately $1,642,000 and $1,772,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net position. For the years ended June 30, 2017 and 2016, an investment (loss) gain of approximately ($124,000) and $167,000, respectively, was recorded in other nonoperating revenues, net, in the accompanying consolidated basic statements of revenues, expenses and changes in net position. In addition, cash distributions of $400,000 and $750,000 were received for the years ended June 30, 2017 and 2016, respectively.

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

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

Shands and the University of Florida Development Corporation (“UFDC”) are members in Innovation Square, LLC (“Innovation Square”). Situated between the UF campus and downtown Gainesville, Innovation Square is a planned mixed-use research neighborhood that advances the national and global profile of UF with Shands and the local biotech industry. Shands accounts for the investment under the cost method of accounting. At June 30, 2017 and 2016, an investment of approximately $8,158,000 was recorded in other assets in the accompanying consolidated basic statements of net position.

Accrued Leave

Shands provides paid time off (“PTO”) to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. Shands accrues the estimated expense related to PTO based on pay rates currently in effect. Upon termination of employment, employees will have their eligible PTO paid in varying amounts. Accrued PTO was approximately $37,553,000 and $35,430,000 as of June 30, 2017 and 2016, respectively, and is included in accrued salaries and leave payable in the accompanying consolidated basic statements of net position.

Bond Issuance Costs
Bond issuance costs are expensed at time of issuance. Issuance costs of approximately $218,000 were expensed for the year ended June 30, 2016.

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

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

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

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

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

Net Position
Net position is categorized as "net investment in capital assets," "restricted-nonexpendable," "restricted-expendable," and "unrestricted." Net investment in capital assets is intended to reflect the portion of net position associated with capital assets, less outstanding balances due on

borrowings used to finance the purchase or construction of those assets. Unspent debt proceeds are excluded from the calculation of net investment in capital assets and are included in unrestricted net position, unless the unspent amounts are externally restricted. Restricted net position has restrictions placed on the use of assets through external constraints imposed by donors. Restricted–nonexpendable net position consists of assets that have been restricted by donors to be maintained by Shands in perpetuity. Restricted–expendable net position includes assets whose use by Shands has been limited by donors to a specific time period or purpose. Unrestricted net position consists of net assets that do not meet the definition of net investment in capital assets and have no third-party restrictions on use.

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

Net Patient Service Revenue and Patient Accounts Receivable
Shands has agreements with Medicare, Medicaid, and other third-party payors that provide for payments to Shands at amounts different from its established rates. Payment arrangements vary significantly and include but are not limited to prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the years ended June 30, 2017 and 2016, net patient service revenue decreased by approximately $16,086,000 and $8,385,000, respectively, due to such adjustments.

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

Medicare
Shands participates in the federal Medicare program. Approximately 32% and 33%, of Shands' net patient service revenue for the years ended June 30, 2017 and 2016, respectively, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. Shands is paid for certain reimbursable services at a tentative rate with final settlement determined after submission of annual cost reports by Shands and audits by the Medicare fiscal intermediary. Shands' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2017, the Medicare cost reports were final settled by Shands' Medicare fiscal intermediary through June 30, 2006.

Medicaid
Approximately 20% and 19%, of Shands' net patient service revenue for the years ended June 30, 2017 and 2016, respectively, was derived under the Medicaid program. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed based upon a cost reimbursement methodology subject to certain ceilings. Shands is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by Shands, and audits by the Medicaid fiscal intermediary. As of June 30, 2017, the Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2009. In addition to the prospectively determined rates per discharge and tentative payments received by Shands for the provision of health care services to Medicaid beneficiaries, the State of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in net patient service revenue in the accompanying consolidated basic statements of revenues, expenses and changes in net position.

The Agency for Health Care Administration is the administrator of the Statewide Medicaid Managed Care Managed Medical Assistance ("MMA") Program in the State of Florida. The MMA program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and Children's Medical Services Network. The majority of Medicaid recipients are required to enroll in the MMA program.

Shands' Medicaid outpatient interim rates are based on the most recent "as filed" Medicaid cost report. The outpatient rates used for 2017 and 2016 were based on the unaudited cost reports for 2015 and 2014, respectively. Effective July 1, 2017, Shands will be reimbursed for outpatient services on a prospective basis.

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

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

Accounting Pronouncements

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements* ("GASB No. 81"). GASB No. 81 improves accounting and financial reporting by establishing recognition and measurement requirements for irrevocable split-interest agreements which are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. GASB No. 81 is effective for fiscal years beginning after December 15, 2016. Shands is currently evaluating the impact GASB No. 81 will have on its consolidated basic financial statements.

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations* ("GASB No. 83"). GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations ("ARO's"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. GASB No. 83 is effective for fiscal years beginning after June 15, 2018. Shands is currently evaluating the impact GASB No. 83 will have on its consolidated basic financial statements.

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

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017* ("GASB No. 85"). GASB No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits. GASB No. 85 is effective for fiscal years beginning after June 15, 2017. Shands is currently evaluating the impact GASB No. 84 will have on its consolidated basic financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues* ("GASB No. 86"). GASB No. 86 establishes standards of accounting and financial reporting including additional disclosure requirements for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished. GASB No. 86 is effective for fiscal years beginning after June 15, 2017. Shands is currently evaluating the impact GASB No. 86 will have on its consolidated basic financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB No. 87"). GASB No. 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB No. 87 will require a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. GASB No. 87 is effective for fiscal years beginning after December 15, 2019. Shands is currently evaluating the impact GASB No. 87 will have on its consolidated basic financial statements.

Revision of Previously Issued Financial Statements

The Company revised its consolidated basic statement of cash flows for the year ended June 30, 2016 to reclassify certain cash flows to conform to the presentation of the consolidated basic statement of cash flows for the year ended June 30, 2017. Specifically, certain net expenditures of donated funds were reclassified from cash flows from investing activities to cash flows from noncapital financing activities to match the classification of the source of donated funds. This adjustment decreased the previously reported “Net cash used in noncapital financing activities” and increased the previously reported “Net cash used in investing activities” by $10.7 million. Management believes that this revision is not material to the previously issued consolidated basic financial statements.

3. Unsponsored Community Benefit

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

Community benefit categories include financial assistance, community health services, health professions education, research, and donations. Shands has a long history of providing community benefits and has quantified these benefits using national guidelines developed by the Catholic Health Association in collaboration with the Voluntary Hospital Association.

Shands has policies for providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and asset criteria. Because Shands does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. Shands maintains records to identify and monitor the level of financial assistance it provides. Charges foregone for services provided under Shands’ financial assistance policy as a percentage of total charges for the years ended June 30, 2017 and 2016 were approximately 4.1%.

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

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

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

Shands' valuation of unsponsored community benefits at estimated cost for the years ended June 30, 2017 and 2016 is as follows:

(in thousands of dollars)	**2017**	**2016**
Financial assistance provided	$ 52,510	$ 50,548
Government support applied to charity care	(1,000)	(3,656)
Net unreimbursed financial assistance	51,510	46,892
Benefits for the broader community		
Community health services	6,950	6,464
Health professions education	37,991	21,267
Research	18,343	15,702
Donations	3,865	2,724
Total quantifiable benefits for the broader community	67,149	46,157
Total unsponsored community benefits	$ 118,659	$ 93,049

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

Shands also plays a leadership role in the communities it serves by providing additional community benefits that have not been quantified. This role includes serving as a state designated Level I trauma center in Gainesville, Florida. Shands also maintains air ambulance services at its trauma center, as well as a regional burn intensive care unit to help meet the emergency needs of citizens. Other specialty services provided at Shands' facilities include a transplant center of excellence for adult and pediatric patients in several disciplines including: heart, lung, liver, kidney, pancreas, and bone marrow. In addition, Shands provides specialized pediatric services including neonatal intensive care, pediatric intensive care, pediatric open heart and cardiac catheterization.

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

4. Investments

Investments are reported in the accompanying consolidated basic statements of net position as follows at June 30, 2017 and 2016:

(in thousands of dollars)	2017	2016
Current assets		
Short-term investments	$ 154,768	$ 155,191
Assets whose use is limited, current portion	38,023	35,202
	192,791	190,393
Long-term assets		
Assets whose use is limited, less current portion	517,902	433,276
Assets whose use is restricted	39,910	159,135
	$ 750,603	$ 782,804

Assets whose use is limited include investments internally designated by the Board and are comprised of the following at June 30, 2017 and 2016:

(in thousands of dollars)	2017	2016
Internally designated by the Board for:		
Capital improvements and debt service	$ 548,918	$ 459,268
Other health programs	7,007	6,190
Other postemployment benefits	-	3,020
	555,925	468,478
Less: Current portion	(38,023)	(35,202)
Long-term portion	$ 517,902	$ 433,276

Assets whose use is restricted include investments held by trustees, an interest rate swap counterparty, and an insurance company with external restrictions and are comprised of the following at June 30, 2017 and 2016:

(in thousands of dollars)	2017	2016
Held by trustees under indenture agreements	$ 12,937	$ 124,094
Held by counterparty under interest rate swap agreements	26,923	34,991
Held by insurance company under escrow agreement	50	50
	$ 39,910	$ 159,135

Shands has an investment management agreement with the University of Florida Investment Corporation (“UFICO”) to manage a portion of its investments. UFICO was created by the UF Trustees for the purpose of managing assets held by UF and its related corporations. Shands’ investments managed by UFICO are invested in the Florida Global Equity Fund, LLC, Florida Global Fixed Income Fund, LLC, Florida Hedged Strategies Fund, LLC, and Florida Short-Term Fund, LP.

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

Pantheon USA Fund V, L.P. is 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, 2017 is as follows:

(in thousands of dollars)		**Investment Maturities**			
	Fair Value	**Less Than 1 Year**	**1–5 Years**	**6–10 Years**	**N/A**
Fixed income mutual funds	$ 46,173	$ 8,473	$ -	$ 37,700	$ -
Fixed income high yield fund	46,321	-	-	-	46,321
Florida Short-Term Fund, LP	82,895	-	-	-	82,895
Florida Global Fixed Income Fund, LLC	217,715	-	-	-	217,715
Florida Global Equity Fund, LLC	175,182	-	-	-	175,182
Florida Hedged Strategies Fund, LLC	33,856	-	-	-	33,856
SPIA	120,926		120,926	-	-
Pantheon USA Fund V, L.P.	562	-	-	-	562
Money market funds	50	50	-	-	-
Collateral on deposit with interest rate swap counterparty	26,923	26,923	-	-	-
	$ 750,603	$ 35,446	$ 120,926	$ 37,700	$ 556,531

The maturity of investments at June 30, 2016 is as follows:

(in thousands of dollars)		**Investment Maturities**			
	Fair Value	**Less Than 1 Year**	**1–5 Years**	**6–10 Years**	**N/A**
Fixed income mutual funds	$ 45,747	$ 8,199	$ -	$ 37,548	$ -
Fixed income high yield fund	41,434	-	-	-	41,434
Florida Short-Term Fund, LP	82,230	-	-	-	82,230
Florida Global Fixed Income Fund, LLC	185,826	-	-	-	185,826
Florida Global Equity Fund, LLC	135,455	-	-	-	135,455
Florida Hedged Strategies Fund, LLC	23,573	-	-	-	23,573
SPIA	230,607	-	230,607	-	-
Pantheon USA Fund V, L.P.	1,463	-	-	-	1,463
Commercial paper and money market funds	1,478	1,478	-	-	-
Collateral on deposit with interest rate swap counterparty	34,991	34,991	-	-	-
	$ 782,804	$ 44,668	$ 230,607	$ 37,548	$ 469,981

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, 2017 is as follows:

(in thousands of dollars)		Ratings	
	Fair Value	Af	N/A
Fixed income mutual funds	$ 46,173	$ -	$ 46,173
Fixed income high yield fund	46,321	-	46,321
Florida Short-Term Fund, LP	82,895	-	82,895
Florida Global Fixed Income Fund, LLC	217,715	-	217,715
Florida Global Equity Fund, LLC	175,182	-	175,182
Florida Hedged Strategies Fund, LLC	33,856	-	33,856
SPIA	120,926	120,926	-
Pantheon USA Fund V, L.P.	562	-	562
Money market funds	50	-	50
Collateral on deposit with interest rate swap counterparty	26,923	-	26,923
	$ 750,603	$ 120,926	$ 629,677

The credit risk profile of Shands' investments as of June 30, 2016 is as follows:

(in thousands of dollars)		Ratings	
	Fair Value	Af	N/A
Fixed income mutual funds	$ 45,747	$ -	$ 45,747
Fixed income high yield fund	41,434	-	41,434
Florida Short-Term Fund, LP	82,230	-	82,230
Florida Global Fixed Income Fund, LLC	185,826	-	185,826
Florida Global Equity Fund, LLC	135,455	-	135,455
Florida Hedged Strategies Fund, LLC	23,573	-	23,573
SPIA	230,607	230,607	-
Pantheon USA Fund V, L.P.	1,463	-	1,463
Commercial paper and money market funds	1,478	-	1,478
Collateral on deposit with interest rate swap counterparty	34,991	-	34,991
	$ 782,804	$ 230,607	$ 552,197

Concentration of Credit Risk
Investments in any one issuer that represent 5% or more of Shands' investment portfolio are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2017 and 2016, Shands did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk
As of June 30, 2017 and 2016, 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, 2017 and 2016.

Investment income, net for the years ended June 30, 2017 and 2016 is as follows:

(in thousands of dollars)	2017	2016
Dividends, interest and other income	$ 11,522	$ 12,227
Net realized gains on investments	4,371	302
Net realized gains on interest rate swaps termination	204	-
Net increase in fair value of investments	21,032	768
Net (decrease) increase in fair value of non-hedging interest rate swaps	(371)	9,709
Net investment income	$ 36,758	$ 23,006

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).

The recurring fair value measurement of investments at June 30, 2017 is as follows:

(in thousands of dollars)	Fair Value	Quoted Prices in Active Markets for Identical Securities (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income mutual funds	$ 46,173	$ 46,173	$ -	$ -
Fixed income high yield fund	46,321	-	46,321	-
Total Investments by fair value level	92,494	$ 46,173	$ 46,321	$ -
Investments measured at the net asset value (NAV)				
Florida Short-Term Fund, LP	82,895			
Florida Global Fixed Income Fund, LLC	217,715			
Florida Global Equity Fund, LLC	175,182			
Florida Hedged Strategies Fund, LLC	33,856			
SPIA	120,926			
Pantheon USA Fund V, L.P.	562			
Total Investments measured at the NAV	631,136			
Total Investments measured at fair value	723,630			
Other				
Money market funds	50			
Cash collateral on deposit with interest rate swap counterparty	26,923			
	$ 750,603			

The recurring fair value measurement of investments at June 30, 2016 is as follows:

(in thousands of dollars)	Fair Value	Quoted Prices in Active Markets for Identical Securities (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income mutual funds	$ 45,747	$ 45,747	$ -	$ -
Fixed income high yield fund	41,434	-	41,434	-
Total Investments by fair value level	87,181	$ 45,747	$ 41,434	$ -
Investments measured at the net asset value (NAV)				
Florida Short-Term Fund, LP	82,230			
Florida Global Fixed Income Fund, LLC	185,826			
Florida Global Equity Fund, LLC	135,455			
Florida Hedged Strategies Fund, LLC	23,573			
SPIA	230,607			
Pantheon USA Fund V, L.P.	1,463			
Total Investments measured at the NAV	659,154			
Total Investments measured at fair value	746,335			
Other				
Commercial paper and money market funds	1,478			
Cash collateral on deposit with interest rate swap counterparty	34,991			
	$ 782,804			

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

Shands' investments in the Florida Short-Term Fund, LP, Florida Global Fixed Income Fund, LLC, Florida Global Equity Fund, LLC, and Florida Hedged Strategies Fund, LLC, are measured at the net asset value ("NAV") per share or its equivalent. Florida Global Equity Fund, LLC includes investments in domestic and international securities, and domestic, international, and emerging markets stock funds. Florida Global Fixed Income Fund, LLC includes investments in an intermediate-term Government Bond index fund and corporate bonds. Florida Hedged Strategies Funds, LLC includes investments in domestic and international hedge funds and exchange traded funds. Florida Short-Term Fund, LP includes investments in corporate bonds, U.S. treasuries and U.S. government agencies, and cash and cash equivalents. Shands can redeem its investment in the Florida Short-Term Fund, LP and 90% of the limited liability company investments with 45 days' notice, and under certain conditions, including liquidity needs, can redeem all of its investments with three business days' notice.

Shands' investment in SPIA is measured at the NAV per share or its equivalent. SPIA invests in a combination of short-term liquid instruments and intermediate fixed income securities. A maximum of 40% can be redeemed with 5 day notice including $20,000,000 with same day notice. The remaining 60% can be redeemed with 6 month notice. The 6 month notice can be waived by SPIA administration upon request.

Shands' investment in Pantheon USA Fund V, L.P. is measured at the NAV per share or its equivalent. Redemptions are allowable only to the extent of distributions received from the fund's underlying fund investments. It is expected that the underlying assets of the fund will be liquidated over the next 1 to 3 years. The remaining unfunded commitment as of June 30, 2017 is approximately $198,000.

Shands' interest rate swaps are classified in Level 2 of the fair value hierarchy. The fair values of the fixed rate payer and fixed rate receiver interest rate swaps are estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon bond due on the date of each future net settlement payment on the interest rate swaps. The fair values of the 2007A and 2007B total return swaps are estimated by multiplying each total return swap's notional amount by the difference between the base price and the current fair value of the underlying bonds. As the Series 2007A Bonds and Series 2007B Bonds are not actively trading, to replicate the fair value of these bonds, the prices were implied by applying a credit spread adjustment based on bonds with similar terms and similar issuers that are trading in active markets. Fair value of the interest rate swaps are included in Note 8.

Shands' long-term debt is classified in Level 2 of the fair value hierarchy. The fair value of fixed rate debt is estimated based on dealer quotes for hospital taxable and tax-exempt debt with similar terms and maturities and using discounted cash flow analyses based on current interest rates for similar types of borrowing arrangements. The fair value of variable rate debt approximates its carrying value. The carrying value of Shands' long-term debt was approximately $842,422,000 and $855,686,000 at June 30, 2017 and 2016, respectively. The fair value was approximately $835,001,000 and $879,053,000 at June 30, 2017 and 2016, respectively.

6. Capital Assets

A summary of changes in capital assets during fiscal years 2017 and 2016 is as follows:

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

(in thousands of dollars)	**Balance at June 30, 2015**	**Additions**	**Disposals and Transfers**	**Balance at June 30, 2016**
Land	$ 49,595	$ -	$ (2)	$ 49,593
Buildings and leasehold improvements	848,684	5,799	-	854,483
Equipment	446,963	17,513	(15,855)	448,621
Totals at historical cost	1,345,242	23,312	(15,857)	1,352,697
Less accumulated depreciation for:				
Buildings and leasehold improvements	(311,798)	(25,375)	-	(337,173)
Equipment	(346,996)	(31,982)	15,667	(363,311)
	(658,794)	(57,357)	15,667	(700,484)
Construction-in-progress	54,656	156,538	(15,301)	195,893
Capital assets, net	$ 741,104	$ 122,493	$ (15,491)	$ 848,106

Depreciation and amortization expense was approximately $55,795,000 and $57,357,000 for the years ended June 30, 2017 and 2016, respectively. Amortization expense on equipment under capital leases was approximately $316,000 and $193,000 for the years ended June 30, 2017 and 2016, respectively. Interest costs capitalized were approximately $9,939,000 and $9,811,000 for the years ended June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, fully depreciated buildings and equipment with an original cost of approximately $22,433,000 and $14,744,000, respectively, were written-off.

Construction-in-progress at June 30, 2017 consists primarily of costs incurred for the new hospitals located on the main campus of Shands. Retainage and construction payables were approximately $19,310,000 and $26,836,000 at June 30, 2017 and 2016, respectively.

7. Long-Term Debt

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

(in thousands of dollars)	**2017**	**2016**
Health Facilities Tax Exempt Revenue Bonds		
Series 1996A, final maturity December 2016	$ -	$ 2,855
Series 2007A, final maturity December 2037	100,395	100,395
Series 2007B, final maturity December 2037	35,000	35,000
Series 2008A, final maturity December 2037	49,990	49,990
Series 2008C, final maturity October 2028	43,125	46,875
Series 2010A, final maturity July 2025	48,523	51,705
Series 2012A, final maturity December 2037	32,365	34,320
Series 2012B, final maturity December 2037	35,360	37,500
Series 2014A, final maturity December 2044	250,000	250,000
Series 2014B, final maturity December 2034	50,000	50,000
Series 2016A, final maturity December 2030	46,600	46,600
	691,358	705,240
Taxable Notes		
Series 2013A, final maturity December 2042	125,000	125,000
Bank Note Payable, final maturity March 2019	2,640	4,100
	127,640	129,100
Installment debt, final maturity June 2024	3,769	681
	822,767	835,021
Net unamortized bond premium	19,655	20,665
Total long-term debt	842,422	855,686
Less: Current portion	(17,200)	(17,034)
Long-term portion	$ 825,222	$ 838,652

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

(in thousands of dollars)	**Balance at June 30, 2016**	**Additions**	**Reductions**	**Balance at June 30, 2017**	**Amounts Due Within One Year**
Health Facilities Tax Exempt Revenue Bonds					
Series 1996A, final maturity December 2016	$ 2,855	$ -	$ (2,855)	$ -	$ -
Series 2007A, final maturity December 2037	100,395	-	-	100,395	-
Series 2007B, final maturity December 2037	35,000	-	-	35,000	-
Series 2008A, final maturity December 2037	49,990	-	-	49,990	-
Series 2008C, final maturity October 2028	46,875	-	(3,750)	43,125	3,750
Series 2010A, final maturity July 2025	51,705	-	(3,182)	48,523	3,181
Series 2012A, final maturity December 2037	34,320	-	(1,955)	32,365	3,400
Series 2012B, final maturity December 2037	37,500	-	(2,140)	35,360	3,710
Series 2014A, final maturity December 2044	250,000	-	-	250,000	-
Series 2014B, final maturity December 2034	50,000	-	-	50,000	-
Series 2016A, final maturity December 2030	46,600	-	-	46,600	-
Taxable Notes					
Series 2013A, final maturity December 2042	125,000	-	-	125,000	-
Bank Note Payable, final maturity March 2019	4,100	-	(1,460)	2,640	1,500
Installment debt, final maturity June 2024	681	4,062	(974)	3,769	648
Total long-term debt	$ 835,021	$ 4,062	$ (16,316)	$ 822,767	$ 16,189

(in thousands of dollars)	**Balance at June 30, 2015**	**Additions**	**Reductions**	**Balance at June 30, 2016**	**Amounts Due Within One Year**
Health Facilities Tax Exempt Revenue Bonds					
Series 1996A, final maturity December 2016	$ 5,545	$ -	$ (2,690)	$ 2,855	$ 2,855
Series 2007A, final maturity December 2037	100,395	-	-	100,395	-
Series 2007B, final maturity December 2037	35,000	-	-	35,000	-
Series 2008A, final maturity December 2037	49,990	-	-	49,990	-
Series 2008C, final maturity October 2028	50,625	-	(3,750)	46,875	3,750
Series 2008D1, final maturity December 2023	21,715	-	(21,715)	-	-
Series 2008D2, final maturity December 2030	22,625	-	(22,625)	-	-
Series 2010A, final maturity July 2025	54,886	-	(3,181)	51,705	3,182
Series 2010B, final maturity December 2015	9,395	-	(9,395)	-	-
Series 2012A, final maturity December 2037	34,320	-	-	34,320	1,955
Series 2012B, final maturity December 2037	37,500	-	-	37,500	2,140
Series 2014A, final maturity December 2044	250,000	-	-	250,000	-
Series 2014B, final maturity December 2034	50,000	-	-	50,000	-
Series 2016A, final maturity December 2030	-	46,600	-	46,600	-
Taxable Notes					
Series 2013A, final maturity December 2042	125,000	-	-	125,000	-
Bank Note Payable, final maturity March 2019	5,540	-	(1,440)	4,100	1,460
Installment debt, final maturity February 2017	2,972	-	(2,291)	681	681
Total long-term debt	$ 855,508	$ 46,600	$ (67,087)	$ 835,021	$ 16,023

The current portion of net unamortized bond premium was approximately $1,011,000 as of June 30, 2017 and 2016.

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

(in thousands of dollars)

Year Ending June 30	**Debt Service Principal**	**Debt Service Interest**
2018	$ 16,189	$ 26,930
2019	13,330	26,652
2020	12,276	26,407
2021	12,367	26,158
2022	12,464	25,909
2023-2027	85,087	124,972
2028-2032	100,605	114,334
2033-2037	188,145	97,995
2038-2042	137,415	73,809
2043-2047	244,889	11,740
	$ 822,767	$ 554,906

Cash paid for interest, net of amounts capitalized, was approximately $22,892,000 and $23,452,000 for the years ended June 30, 2017 and 2016, respectively.

Shands entered into a Master Trust Indenture (“MTI”) with U.S. Bank, National Association (“U.S. Bank”) which serves as the primary financing document for Shands excluding ElderCare, Foundation, and joint ventures. All of Shands’ long-term debt is covered by the MTI with the exception of installment debt. Under the terms of the MTI, Shands has pledged a security interest in its gross revenues. The MTI provides for specific restrictive covenants, including a debt service coverage requirement. Shands was in compliance with all such restrictive covenants as of June 30, 2017 and 2016.

Series 2007A and Series 2007B Health Facilities Revenue Bonds

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

The Series 2007A Bonds and Series 2007B Bonds are variable rate bonds based upon 67% of three month London Interbank Offered Rate (“LIBOR”) plus 0.87%. The interest rate on the bonds is reset quarterly and the interest rate was 1.68% and 1.32% at June 30, 2017 and 2016, respectively. The Series 2007A Bonds and Series 2007B Bonds maturing on or after June 1, 2017 are redeemable at Shands’ option at par value.

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

The Series 2008A Bonds are variable rate bonds issued in the Unit Pricing Mode. Interest periods range from 1 to 270 days. The weighted average interest rate on the Series 2008A Bonds was 0.89% and 0.44% at June 30, 2017 and 2016, respectively. The Series 2008A Bonds are backed by a bank letter of credit for approximately $50,709,000 that expires in December 2020. There were no amounts outstanding under this letter of credit at June 30, 2017 and 2016. The Series 2008A Bonds are redeemable at the option of Shands at par value plus accrued interest at any interest payment date.

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

The Series 2008C Bonds are variable rate bonds based upon 65% of one month LIBOR plus 1.30%. The interest rate on the Series 2008C Bonds was 1.98% and 1.60% at June 30, 2017 and 2016, respectively.

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

The Series 2010A Bonds are variable rate bonds based upon 65% of one month LIBOR plus 1.105% with a minimum rate floor of 1.29%. The interest rate on the Series 2010A Bonds was 1.79% and 1.40% at June 30, 2017 and 2016, respectively.

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

The Series 2012A Bonds and Series 2012B Bonds are variable rate bonds based upon 67% of one month LIBOR plus 0.85% and 67% of one month LIBOR plus 0.93%, respectively. The interest rate on the Series 2012A Bonds and Series 2012B Bonds was 1.55% and 1.63%, respectively, at June 30, 2017 and 1.16% and 1.24%, respectively, at June 30, 2016.

Series 2014A and Series 2014B Health Facilities Revenue Bonds
In October 2014, the Authority issued the Series 2014A Health Facilities Revenue Bonds ("Series 2014A Bonds") and the Series 2014B Health Facilities Revenue Bonds ("Series 2014B Bonds") on behalf of Shands. The proceeds of the Series 2014A Bonds and Series 2014B Bonds are being used to finance capital improvement projects and 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% and are payable semiannually. The Series 2014A Bonds and Series 2014B Bonds maturing on or after December 1, 2024 are redeemable at Shands' option at par value.

Series 2016A Health Facilities Revenue Refunding Bonds
In May 2016, the Authority issued the Series 2016A Health Facilities Revenue Refunding Bonds ("Series 2016A Bonds") on behalf of Shands. The proceeds of the Series 2016A Bonds were used to advance refund the Series 2008D1 Health Facilities Revenue Bonds ("Series 2008D1 Bonds") and Series 2008D2 Health Facilities Revenue Bonds ("Series 2008D2 Bonds") and pay related costs of issuance. The interest rate on the Series 2016A Bonds is fixed at 2.15% and is payable quarterly.

Shands advance refunded the Series 2008D1 Bonds and Series D2 Bonds to reduce its total debt service payments over the next 14.5 years by approximately $10,935,000 and to obtain an economic gain (difference between the present value of the debt service on the new debt and the refunded debt) of approximately $9,247,000. The advance refunding resulted in the recognition of a deferred outflow of approximately $7,029,000 which will be amortized over the life of the Series 2016A Bonds. As of June 30, 2017 and 2016, the amount of the Series 2008D1 Bonds and Series D2 Bonds that were advance refunded and still outstanding were $21,715,000 and $22,625,000, respectively.

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

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

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

8. Interest Rate Swaps

On June 30, 2017 and 2016, Shands had the following derivative instruments outstanding:

(in thousands of dollars)

Item	Type	Objective	Shands Notional Amount	Counterparty Notional Amount	Effective Date	Maturity or Termination Date	Terms	2017 Fair Value	2016 Fair Value
1996B	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 1996B Bonds refinanced in 2008	$ 75,000	$ 75,000	7/03/2003	08/01/2016	Pay fixed rate of 3.175%. Receive 67% of one month LIBOR.	$ -	$ (10,689)
1996B	Fixed rate receiver interest rate swap	Hedge of changes in cash flows on the 1996B fixed rate payer interest rate swap	$ 75,000	$ 75,000	6/03/2009	08/01/2016	Pay SIFMA Municipal Swap Index rate. Receive fixed rate of 3.40%.	$ -	$ 10,902
2007A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2007A Bonds	$ 100,395	$ 100,395	3/30/2007	12/01/2037	Pay fixed rate of 4.349%. Receive 67% of three month LIBOR plus 87 basis points.	$ (26,112)	$ (37,341)
2007B	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2007B Bonds	$ 35,000	$ 35,000	3/30/2007	12/01/2037	Pay fixed rate of 4.349%. Receive 67% of three month LIBOR plus 87 basis points.	$ (8,133)	$ (11,695)
2007A	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007A Bonds	$ 27,950	$ 40,000	1/27/2011	12/01/2019	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	$ 7,456	$ 7,748
2007A	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007A Bonds	$ 14,900	$ 20,000	1/10/2014	12/01/2019	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	$ 2,419	$ 2,204
2007B	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007B Bonds	$ 24,456	$ 35,000	1/27/2011	12/01/2019	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	$ 6,954	$ 7,035
2008A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008A Bonds	$ 49,990	$ 49,990	11/07/2007	12/01/2037	Pay fixed rate of 3.538%. Receive 67% of one month LIBOR.	$ (13,942)	$ (19,952)
2008C	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008C Bonds	$ 43,125	$ 43,125	11/05/2008	10/02/2028	Pay fixed rate of 4.18%. Receive 65% of one month LIBOR plus 130 basis points.	$ (3,622)	$ (6,032)
								$ (34,980)	$ (57,820)

At June 30, 2017, approximately $16,829,000 and $51,809,000 and at June 30, 2016, approximately $27,889,000 and $85,709,000 related to the fair value of interest rate swaps are recorded in other assets and other liabilities, respectively, in the accompanying consolidated basic statements of net position.

Credit Risk

Shands has sought to limit its counterparty risk. As of June 30, 2017 and 2016, the Moody's and Standard & Poor's credit ratings for the counterparty for the swap agreements, with the exception of the 2007A total return swap agreement effective January 10, 2014 and the 2008C interest rate swap agreement, were Baa2/NR. The Moody's and Standard & Poor's credit ratings for the counterparty of the 2007A total return swap agreement effective January 10, 2014 were A1/A+ and A1/A, respectively, and the Moody's and Standard & Poor's credit ratings for the counterparty of the 2008C interest rate swap agreement were Baa2/BBB+. The counterparty for all of the interest rate swap agreements, with the exception of the 2008A and 2008C interest rate swap agreements, may be required to post collateral if the fair value of the interest rate swap is positive and meets certain thresholds. Collateral in the amount of approximately $12,290,000 and $11,780,000 was required to be posted by the counterparty with Shands as of June 30, 2017 and 2016, respectively.

Interest Rate Risk

Shands is not exposed to interest rate risk on its fixed rate payer interest rate swap agreements as they are structured in a receive variable, pay fixed rate mode. The 2007A and 2007B total return swaps are structured in a receive variable, pay variable rate mode and hedge the cash flows associated with the Series 2007A Bonds and Series 2007B Bonds.

Basis Risk

Shands is exposed to basis risk on its 2008A fixed rate payer swap agreement because the variable-rate payments received by Shands on the hedging derivative instrument are based on a rate or index other than the interest rates that Shands pays on its hedged variable rate debt, which is remarketed in varying amounts and at various dates. As of June 30, 2017 and 2016, the weighted variable interest rate on Shands' hedged variable rate debt is 0.89% and 0.44%, respectively, while the swap index is 67% of one month LIBOR, or 0.82% and 0.31%, respectively.

Termination Risk

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

Commitments

Several of Shands' interest rate swap agreements require collateral to be posted if the fair value of the interest rate swap is negative and meets certain thresholds. The threshold amount depends on Shands' unenhanced credit rating as determined by Moody's and Standard & Poor's. Collateral in the amount of approximately $26,923,000 and $34,991,000 was required to be posted by Shands with the counterparty as of June 30, 2017 and 2016, respectively.

9. Retirement Benefit Plans

Defined Contribution Plans

Shands sponsors two defined contribution plans that cover eligible employees, the Shands HealthCare Matched Savings Account 403(b) Plan ("403(b) Plan") and the Shands HealthCare Matched Savings Account 401(a) Plan ("401(a) Plan"). Under the provisions of the 403(b) Plan, employees may elect to defer up to 75% of annual compensation (as defined) subject to Internal Revenue Code limitations. Under the 401(a) Plan, Shands makes a non-elective discretionary contribution on behalf of employees (a percentage of compensation based upon years of service) and a matching contribution equal to 75% of the first 4% of compensation that an employee contributes to the 403(b) Plan. Shands' contributions to the 401(a) Plan were approximately $31,666,000 and $30,007,000 for the years ended June 30, 2017 and 2016, respectively.

Defined Benefit Pension Plan

Plan Description

The Shands HealthCare Pension Plan is a single employer defined benefit pension plan covering eligible employees (as defined by the Plan) of Shands Teaching Hospital and Clinics, Inc. (the Plan Sponsor) who were hired as of June 30, 2010. The Plan was subsequently frozen effective July 1, 2013. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. The Plan's stand-alone financial statements are filed with the Internal Revenue Service Form 5500 which is available to the public on the Department of Labor's Employee Benefits Security Administration website.

Benefits Provided

The Plan provides for retirement and death benefits. Retirement benefits are determined based upon varying formulas dependent upon hire date and years of service. For participants hired prior to July 1, 1997, the Plan provided benefits under a traditional benefit formula (1.6% of the employee's 5 highest years average annual compensation times the employee's years of credited service) through July 1, 2011 when the Plan was amended to cease traditional pension benefits. For participants hired as of July 1, 1997 and subsequent new hires through June 30, 2010, and as of July 1, 2011 for participants who were previously receiving benefits under the traditional pension formula, the Plan provided cash balance benefits, with a hypothetical account maintained for each participant in which contributions were credited for the benefit of the individual based on a participant's years of credited vesting service. Participants continued to accrue cash balance benefits through June 30, 2013, when the Plan was amended to cease accrual of cash balance benefits. Employees hired on or after July 1, 2010 receive benefits through the 401(a) Plan.

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

Employees Covered by Benefit Terms

At June 30, 2016, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2015	
Active	4,996
Terminated vested	3,775
Retired	2,276
	11,047

Contributions

The Plan Sponsor's funding policy is to make contributions to meet the minimum funding requirements of Internal Revenue Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, the Plan Sponsor may contribute an amount above the required contribution. The Plan Sponsor's contributions of approximately $29,036,000 and $21,863,000 for the years ended June 30, 2017 and 2016, respectively, meet the minimum funding requirements of ERISA.

Net Pension Liability

The Shands' net pension liability as of June 30, 2017 was based on a measurement date of June 30, 2016. The total pension liability used to calculate the net pension liability as of June 30, 2016 was determined based on the results of an actuarial valuation as of July 1, 2015 projected forward to June 30, 2016 using standard actuarial techniques.

The total pension liability in the July 1, 2015 actuarial valuation was determined based on census data as of July 1, 2015, and the following actuarial assumptions:

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

Salary increases: Not applicable

Inflation: 0.12% for the period July 1, 2015 through June 30, 2016, 0.0% for the period July 1, 2016 through June 30, 2017 and 2.0% per year thereafter.

Retirement Growth Account Interest Crediting Rate: 3.29% for the period July 1, 2015 through June 30, 2016, 3.42% for the period July 1, 2016 through June 30, 2017, and 4.10% per year thereafter. The 3.29% and 3.42% rates represent actual interest rate credited in each respective period.

Mortality rates were based upon the RP2014 base mortality rates published in 2014 by the Society of Actuaries, adjusted to remove post-2007 improvement projections with future improvements in mortality from 2007 using the Mercer Modified scale MMP-2007 applied on a generational basis.

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

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

Asset Class	Target Allocation	Real Rate of Return
Domestic Equity	26.0%	4.95%
International Equity	26.0%	5.15%
Core Fixed Income	12.5%	1.95%
Long Duration Fixed Income	10.0%	2.75%
Long Credit Fixed Income	10.0%	3.60%
High Yield Fixed Income	8.0%	4.80%
Private Equity	7.5%	7.95%
Total	100.0%	

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability are summarized in the following table:

(in thousands of dollars)	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at June 30, 2016	$ 873,704	$ 837,691	$ 36,013
Changes for the year:			
Interest	55,175	-	55,175
Difference between expected and actual experience	(2,690)	-	(2,690)
Employer contributions	-	21,863	(21,863)
Net investment income	-	5,857	(5,857)
Benefit payments	(91,115)	(91,115)	-
Administrative expense	-	(7,985)	7,985
Changes of assumptions	(33,065)	-	(33,065)
Net changes	(71,695)	(71,380)	(315)
Balances at June 30, 2017	$ 802,009	$ 766,311	$ 35,698

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

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

The recurring fair value measurement of the Plan fiduciary net position at June 30, 2016 is as follows:

(in thousands of dollars)	Fair Value	Quoted Prices in Active Markets for Identical Securities (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Interest bearing cash	$ 189	$ 189	$ -	$ -
Fixed income funds	329,601	162,571	167,030	-
Equity funds	257,701	-	257,701	-
Common stock	210,806	210,806	-	-
Total Investments by fair value level	798,297	$ 373,566	$ 424,731	$ -
Investments measured at the NAV				
Private equity funds	35,885			
Total Investments measured at the NAV	35,885			
Total Investments measured at fair value	834,182			
Other				
Other plan assets, net	3,509			
	$ 837,691			

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

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

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

(in thousands of dollars)	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability (asset)	$ 137,117	$ 35,698	$ (47,796)

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

Shands recognized pension expense of approximately $23,058,000 and $18,943,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, Shands reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

(in thousands of dollars)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 187	$ 2,004
Changes of assumptions	37,426	24,628
Net differences between projected and actual earnings on pension plan investments	21,684	-
Contributions made during the year ended June 30, 2017 not yet recognized in fiduciary net position	29,036	-
Total	$ 88,333	$ 26,632

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

(in thousands of dollars)

Year ending June 30	
2018	$ 7,035
2019	8,548
2020	7,572
2021	9,510
Thereafter	-

Payable to the Defined Benefit Pension Plan

As of June 30, 2017 and 2016, there are no payables to the Plan.

10. Commitments and Contingencies

Lease Agreements

Shands entered into a contractual agreement as of July 1, 1980 with the State Board of Education of the State of Florida (the "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 (the "Health Center") through December 31, 2057, with renewal provisions. The contractual agreement also provided for the transfer to Shands of all other assets and liabilities arising from the operation of the Shands facilities prior to July 1, 1980. At termination of the contractual agreement, the net assets of Shands revert to the State Board of Education. Legal title to all buildings and improvements transferred to Shands remains with the State of Florida during the term of the contractual agreement. The contractual agreement provides for a 12-month grace period for any event of default, other than the bankruptcy of Shands. In addition, the contractual agreement limits the right of the State Board of Education to terminate the contractual agreement solely to the circumstance when Shands declares bankruptcy and, in such event, requires net revenue derived from the operation of the hospital facilities to continue to be applied to the payment of Shands' debts.

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

In connection with its minority interest in Lake Shore HMA, LLC, Shands provides a 40% guaranty and CHS provides a 60% guaranty on lease payments to the Lake Shore Hospital Authority. The monthly lease payments are approximately $45,000 at June 30, 2017 and are subject to annual increases based upon the change in the Consumer Price Index. The lease expires June 30, 2040.

The following is a schedule, by year, of future minimum lease payments under capital and noncancelable operating leases together with the present value of net minimum capital lease payments as of June 30, 2017:

(in thousands of dollars) **Year Ending**	**Capital Leases**	**Operating Leases**
2018	$ 358	$ 3,860
2019	293	2,708
2020	294	2,604
2021	297	2,105
2022	308	1,813
Thereafter	1,004	3,980
Total minimum lease payments	2,554	$ 17,070
Less: Amount representing interest	(431)	
Present value of net minimum lease payments	$ 2,123	

Operating lease expense for the rental of property and equipment for the years ended June 30, 2017 and 2016 was approximately $5,661,000 and $5,732,000, respectively. At June 30, 2017 and 2016, gross assets under capital leases included in capital assets were approximately $3,030,000 and $1,562,000, respectively. Accumulated amortization on capital leases as of June 30, 2017 and 2016 was approximately $917,000 and $601,000, respectively.

Commitments
Shands has contracts for the construction and renovation of facilities and equipment purchases. As of June 30, 2017, the remaining commitments relating to these contracts were approximately $65,473,000.

Shands has contracts for the maintenance of computer application software for its core operating systems. As of June 30, 2017, the remaining commitments relating to these contracts were approximately $5,782,000.

Risk Management and Professional Liabilities
Shands is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters in excess of self-insured limits. Settled claims have not exceeded this commercial coverage for the years ended June 30, 2017 and 2016.

Effective July 1, 2011, Shands was granted sovereign immunity under the provision of Chapter 2011-114, Laws of Florida, and further codified in 768.28(2), Florida Statutes. As such, recovery in tort actions arising subsequent to June 30, 2011 was limited to $100,000 for any one person for one incident and all recovery related to one incident was limited to a total of $200,000. Effective October 1, 2011, the limits increased to $200,000 for any one person for one incident and $300,000 in total for one incident.

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

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

Health Insurance
Shands participates with other related party employers controlled by UF including Shands Jacksonville Medical Center (“SJMC”), University of Florida Foundation, Inc. (“UF Foundation”), UFICO, and other eligible employees of the University of Florida in “GatorCare”, a self-insured health plan, to provide health and pharmaceutical coverage to its employees. GatorCare Health Management Corporation (“GCHMC”) was incorporated to coordinate and facilitate the management of GatorCare. Funding amounts collected by GCHMC are determined by the level of benefits coverage selected by each employee and to cover administrative costs of the plan. Cash held by GCHMC is largely restricted for payments of self-insured health and pharmacy claims of Shands and the related party employers, with the remaining cash available to cover the administrative functions of GCHMC.

Expenses net of employee contributions related to the health and pharmaceutical plan for the years ended June 30, 2017 and 2016 were approximately $69,118,000 and $68,577,000, respectively.

In addition, Shands provided certain other postemployment benefits (“OPEB”) for eligible active and retired employees through the Shands Retiree Medical Plan up until the date of plan termination. The Retiree Medical Plan was terminated effective December 31, 2016. OPEB (income) expense was approximately ($3,260,000) and $462,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2016, the net OPEB obligation of approximately $3,260,000, is included in other liabilities in the accompanying consolidated basic statements of net position. As a result of the termination of the OPEB plan, there was no liability at June 30, 2017.

Workers’ Compensation Insurance

Shands is self-insured for workers’ compensation up to $600,000 per occurrence for the years ended June 30, 2017 and 2016. Shands has purchased excess coverage from a commercial carrier up to the amount allowed by Florida Statutes. Total workers’ compensation expense for the years ended June 30, 2017 and 2016 were approximately $702,000 and $1,567,000, respectively.

Litigation

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

Other Industry Risks

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

11. Transactions with Related Parties

Shands has various agreements for services provided by UF for support of the educational, clinical, and research activities of the College of Medicine, including maintenance, security, utilities, and various other services. Expenses related to these agreements were approximately $184,533,000 and $176,494,000 for the years ended June 30, 2017 and 2016, respectively, of which approximately $66,328,000 and $63,416,000 for the years ended June 30, 2017 and 2016, respectively, are transfers and expenditures in support of UF and its medical programs included in the accompanying consolidated basic statements of revenues, expenses and changes in net position. At June 30, 2017 and 2016, approximately $9,860,000 and $10,204,000, respectively, was owed to UF under these agreements and is included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

Shands provides contracted services at cost to UF for support of the clinical and research activities of the College of Medicine, including maintenance, utilities, telephone communication, and various other services. The amount credited against expenses for these contracted services was approximately $97,880,000 and $91,582,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, approximately $7,419,000 and $7,510,000, respectively, was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position.

Shands has an agreement whereby UF provides billing services for emergency room physician fees. UF remits the collections to Shands on a monthly basis, less an administrative fee. The amount collected by UF on Shands' behalf, less the administrative fee, for the years ended June 30, 2017 and 2016 was approximately $16,005,000 and $12,384,000, respectively. At June 30, 2017 and 2016, approximately $2,156,000 and $1,224,000, respectively, was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position.

Shands has an investment management agreement with UFICO to manage a portion of its investments. UFICO was created by the UF Trustees for the purpose of managing assets held by UF and its related corporations. As of June 30, 2017 and 2016, the fair value of investments managed by UFICO on Shands' behalf was approximately $509,648,000 and $427,084,000, respectively. Investment management fees of approximately $492,000 and $454,000 were incurred for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, a rebate of approximately $40,000 was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position.

Shands provides contracted services at cost to SJMC for administrative and information technology support services. The amount credited against expenses for these contracted services was approximately $6,896,000 and $6,686,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, approximately $594,000 and $455,000, respectively, was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position.

SJMC provides organ procurement services for Shands. Expenses related to these services were approximately $357,000 and $490,000 for the years ended June 30, 2017 and 2016, respectively.

At June 30, 2017 and 2016, Shands had a note receivable of approximately $16,215,000 and $17,071,000, respectively, due from SJMC. The current portion of the note receivable of approximately $894,000 and $855,000 is included within prepaid expenses and other current assets and the long-term portion of the note receivable of approximately $15,321,000 and $16,216,000 at June 30, 2017 and 2016, respectively, is included within other assets in the accompanying consolidated basic statements of net position. The original note amount was approximately $42,276,000 to be paid in quarterly installments of approximately $805,000 including interest of 4.5%, maturing on October 1, 2030. The quarterly payment due July 1, 2015 was made, leaving a net balance receivable of approximately $35,375,000. On September 30, 2015, after assessment of each organization's financial position, Shands' Board of Directors agreed to reduce the note receivable due from SJMC by approximately $17,688,000, effective July 1, 2015. Beginning with the payment due on October 1, 2015, quarterly installments of principal and interest were reduced to approximately $402,000, with the interest rate and maturity date remaining unchanged. The reduction in the note receivable of $17,688,000 was recorded in other transfers in the accompanying 2016 consolidated basic statement of revenues, expenses, and changes in net position.

At June 30, 2015, Shands had a receivable of approximately $6,149,000 due from SJMC for its share of electronic medical record system implementation costs which was included within prepaid expenses and other current assets in the consolidated basic statements of net position. In September 2015, an interest rate of 3% was applied to the monthly amounts outstanding from July 2011 through June 2015. In September 2015, Shands recognized interest income of approximately $1,584,000 from inception through June 2015. The outstanding balance of the receivable and corresponding interest was repaid in full by June 2016.

GCHMC collects funds from Shands for health and pharmacy insurance coverage for eligible employees. GCHMC pays the health and pharmacy claims on behalf of Shands. Funds provided by Shands to GCHMC for the years ended June 30, 2017 and 2016 were approximately $78,324,000 and $77,492,000, respectively. At June 30, 2017 and 2016, approximately $16,677,000 and $8,651,000, respectively, was due from GCHMC and is included in other assets in the accompanying consolidated basic statements of net position.

Shands provides administrative services to GCHMC. The amount credited against expenses for these contracted services for the years ended June 30, 2017 and 2016 was approximately $831,000 and $741,000, respectively. At June 30, 2017 and 2016, approximately $214,000 and $165,000, respectively, was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net position.

Shands provides pharmacy discounts to GCHMC. The discounts for the years ended June 30, 2017 and 2016 were approximately $300,000 and $241,000, respectively. At June 30, 2017 and 2016, approximately $158,000 and $83,000, respectively, was owed to GCHMC and is included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

Shands leases medical and administrative space from Innovation Square. Expense associated with the leased space was approximately $357,000 and $342,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, approximately $4,000 was owed to Innovation Square and is included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

12. Concentrations of Credit Risk

Shands grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. Shands does not charge interest on accounts receivable. The composition of receivables from patients and third-party payors is as follows:

	2017	2016
Medicare (includes HMOs)	31.2%	28.4%
Medicaid (includes HMOs)	18.1%	18.9%
Blue Cross	17.8%	15.1%
Commercial	5.4%	5.7%
Managed Care	19.8%	24.3%
Other third-party payors	7.7%	7.2%
Patients	0.0%	0.4%
	100.0%	100.0%

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

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

13. Subsequent Events

Shands has assessed the impact of subsequent events through September 28, 2017, the date the audited consolidated basic financial statements were issued, and has concluded that there were no such events that require adjustment to the consolidated basic financial statements or disclosure in the notes to the consolidated basic financial statements.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)
June 30, 2017 and 2016

(in thousands of dollars)	2017	2016
Total pension liability		
Service cost	$ -	$ -
Interest	55,175	55,119
Changes of benefit terms	-	-
Differences between expected and actual experience	(2,690)	402
Changes of assumptions	(33,065)	79,285
Benefit payments	(91,115)	(42,722)
Net change in total pension liability	(71,695)	92,084
Total pension liability – beginning	873,704	781,620
Total pension liability – ending (a)	$ 802,009	$ 873,704
Plan fiduciary net position		
Employer contributions	$ 21,863	$ 23,736
Net investment income	5,857	27,578
Benefit payments	(91,115)	(42,722)
Administrative expense	(7,985)	(6,770)
Net change in plan fiduciary net position	(71,380)	1,822
Plan fiduciary net position – beginning	837,691	835,869
Plan fiduciary net position – ending (b)	$ 766,311	$ 837,691
Net pension liability – ending (a)-(b)	$ 35,698	$ 36,013
Plan fiduciary net position as a percentage of total pension liability	95.55%	95.88%

Notes to Schedule

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

Changes of assumptions 2017:

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

Changes of assumptions 2016:

The investment return assumption was decreased from 7.25% to 6.50% to reflect the updated capital market outlook.

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

The mortality assumption was updated to the RP2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP2016 mortality improvement tables.

Retirement rates and withdrawal rates were updated based on the results of an experience study performed in 2015.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Schedule of Employer Contributions (Unaudited)
July 1, 2006 Through June 30, 2017

(in thousands of dollars)	2017	2016
Actuarially determined contribution	$ -	$ -
Contributions in relation to the actuarially determined contribution	29,036	21,863
Contribution excess	$ (29,036)	$ (21,863)

Notes to Schedule

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

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

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

Valuation date	July 1, 2016
Actuarial cost method	Projected Unit Credit
Asset valuation method	Market value including receivables
Inflation	2.00%
Investment rate of return	6.50% net of pension plan investment expense, including inflation
Salary increase	N/A
Retirement age	Traditional plan and retirement growth account retirement rates vary by age
Mortality	RP2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP2016 mortality improvement tables.

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

(in thousands of dollars)

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Basic Statements of Net Position
June 30, 2016

(in thousands of dollars)

Assets	UF Health Shands Hospital	UF Health Shands Psychiatric Hospital	UF Health Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	UF Health Shands Home Care	Property Management	Eliminations	Total Obligated Group	Other	Eliminations	Consolidated Total
Current assets												
Cash and cash equivalents	$ 40,313	$ 1	$ -	$ -	$ 40,314	$ -	$ -	$ -	$ 40,314	$ 12,616	$ -	$ 52,930
Short-term investments	155,152	-	-	-	155,152	-	-	-	155,152	39	-	155,191
Patient accounts receivable, net	202,805	3,295	2,304	-	208,404	1,648	-	-	210,052	959	-	211,011
Inventories	15,153	-	-	-	15,153	-	-	-	15,153	-	-	15,153
Prepaid expenses and other current assets	47,011	684	157	(114)	47,738	318	17	-	48,073	2,607	-	50,680
Assets whose use is limited, current portion	35,202	-	-	-	35,202	-	-	-	35,202	-	-	35,202
Total current assets	495,636	3,980	2,461	(114)	501,963	1,966	17	-	503,946	16,221	-	520,167
Assets whose use is limited, less current portion	433,276	-	-	-	433,276	-	-	-	433,276	-	-	433,276
Assets whose use is restricted	159,135	-	-	-	159,135	-	-	-	159,135	-	-	159,135
Capital assets, net	831,573	8,743	1,586	-	841,902	24	4,658	-	846,584	1,522	-	848,106
Due from affiliates, net	5,828	-	-	-	5,828	-	-	(23)	5,805	-	(5,805)	-
Other assets	59,806	953	1,255	-	62,014	-	-	-	62,014	27,228	-	89,242
Total assets	1,985,254	13,676	5,302	(114)	2,004,118	1,990	4,675	(23)	2,010,760	44,971	(5,805)	2,049,926
Deferred outflows of resources												
Accumulated decrease in fair value of hedging derivatives	72,224	-	-	-	72,224	-	-	-	72,224	-	-	72,224
Deferred loss on debt refunding	416	-	-	-	416	-	-	-	416	-	-	416
Deferred outflows on pension	87,457	-	-	-	87,457	-	-	-	87,457	-	-	87,457
Total deferred outflows of resources	160,097	-	-	-	160,097	-	-	-	160,097	-	-	160,097
Liabilities												
Current liabilities												
Long-term debt, current portion	17,034	-	-	-	17,034	-	-	-	17,034	-	-	17,034
Capital lease obligations, current portion	214	-	-	-	214	-	-	-	214	-	-	214
Accounts payable and accrued expenses	112,202	802	424	-	113,428	355	64	-	113,847	8,483	-	122,330
Accrued salaries and leave payable	56,505	57	53	-	56,615	17	-	-	56,632	45	-	56,677
Estimated third-party payor settlements	76,779	-	-	(114)	76,665	-	-	-	76,665	335	-	77,000
Total current liabilities	262,734	859	477	(114)	263,956	372	64	-	264,392	8,863	-	273,255
Long-term liabilities												
Long-term debt, less current portion	838,652	-	-	-	838,652	-	-	-	838,652	-	-	838,652
Capital lease obligations, less current portion	756	-	-	-	756	-	-	-	756	-	-	756
Due to affiliates, net	-	-	-	-	-	-	23	(23)	-	5,805	(5,805)	-
Other liabilities	128,302	92	52	-	128,446	38	-	-	128,484	83	-	128,567
Total long-term liabilities	967,710	92	52	-	967,854	38	23	(23)	967,892	5,888	(5,805)	967,975
Total liabilities	1,230,444	951	529	(114)	1,231,810	410	87	(23)	1,232,284	14,751	(5,805)	1,241,230
Deferred inflows of resources												
Deferred gain on debt refunding	2,936	-	-	-	2,936	-	-	-	2,936	-	-	2,936
Deferred inflows on pension	31,419	-	-	-	31,419	-	-	-	31,419	-	-	31,419
Total deferred inflows of resources	34,355	-	-	-	34,355	-	-	-	34,355	-	-	34,355
Net position												
Net investment in capital assets	84,359	8,743	1,586	-	94,688	24	4,658	-	99,370	-	-	99,370
Restricted												
Nonexpendable	97	-	-	-	97	-	-	-	97	-	-	97
Expendable	9,716	-	-	-	9,716	-	-	-	9,716	243	-	9,959
Unrestricted	786,380	3,982	3,187	-	793,549	1,556	(70)	-	795,035	29,977	-	825,012
Total net position	$ 880,552	$ 12,725	$ 4,773	$ -	$ 898,050	$ 1,580	$ 4,588	$ -	$ 904,218	$ 30,220	$ -	$ 934,438

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

(in thousands of dollars)

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Basic Statements of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

(in thousands of dollars)

	UF Health Shands Hospital	UF Health Shands Psychiatric Hospital	UF Health Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	UF Health Shands Home Care	Property Management	Total Obligated Group	Other	Eliminations	Consolidated Total
Operating revenues											
Net patient service revenue, net of provision for bad debts	$ 1,285,748	$ 18,404	$ 19,215	$ (505)	$ 1,322,862	$ 7,665	$ -	$ 1,330,527	$ 7,177	$ -	$ 1,337,704
Other operating revenue	16,371	42	-	-	16,413	-	718	17,131	3,576	(255)	20,452
Total operating revenues	1,302,119	18,446	19,215	(505)	1,339,275	7,665	718	1,347,658	10,753	(255)	1,358,156
Operating expenses											
Salaries and benefits	549,753	13,560	12,645	1,527	577,485	5,796	-	583,281	4,153	-	587,434
Supplies and services	562,857	4,550	4,161	(2,032)	569,536	1,505	410	571,451	3,564	(636)	574,379
Depreciation and amortization	56,406	617	174	-	57,197	2	158	57,357	-	-	57,357
Total operating expenses	1,169,016	18,727	16,980	(505)	1,204,218	7,303	568	1,212,089	7,717	(636)	1,219,170
Operating income (loss)	133,103	(281)	2,235	-	135,057	362	150	135,569	3,036	381	138,986
Nonoperating revenues (expenses)											
State appropriations	7,050	-	-	-	7,050	-	-	7,050	-	-	7,050
Interest expense	(22,966)	-	-	-	(22,966)	-	-	(22,966)	-	-	(22,966)
Net investment income, including change in fair value	22,938	-	-	-	22,938	-	-	22,938	68	-	23,006
Loss on disposal of capital assets, net	(138)	-	-	-	(138)	-	-	(138)	-	-	(138)
Other nonoperating revenues (expenses), net	3,727	384	-	-	4,111	-	-	4,111	(7,534)	(381)	(3,804)
Total nonoperating revenues (expenses), net	10,611	384	-	-	10,995	-	-	10,995	(7,466)	(381)	3,148
Excess (deficit) of revenues over expenses before transfers, capital contributions, and other changes in net position	143,714	103	2,235	-	146,052	362	150	146,564	(4,430)	-	142,134
Transfers and expenditures in support of the University of Florida and its medical programs	(60,307)	(998)	-	-	(61,305)	-	-	(61,305)	(2,111)	-	(63,416)
Other transfers	(17,688)	-	-	-	(17,688)	-	-	(17,688)	-	-	(17,688)
Transfer of net assets in association with consolidation and support of other operations and divisions of Shands	5,642	450	(3,224)	-	2,868	(1,602)	(327)	939	(939)	-	-
Capital contributions	654	-	-	-	654	-	-	654	-	-	654
Other changes in net position	2,298	-	-	-	2,298	-	-	2,298	15	-	2,313
Increase (decrease) in net position	74,313	(445)	(989)	-	72,879	(1,240)	(177)	71,462	(7,465)	-	63,997
Net position											
Beginning of year	806,239	13,170	5,762	-	825,171	2,820	4,765	832,756	37,685	-	870,441
End of year	$ 880,552	$ 12,725	$ 4,773	$ -	$ 898,050	$ 1,580	$ 4,588	$ 904,218	$ 30,220	$ -	$ 934,438

Note to Supplemental Consolidating Information

The accompanying consolidating information presents the financial position and results of operations of each of the significant component operating units and affiliates of Shands as of June 30, 2017 and 2016 and for the years then ended, in conformity with accounting principles generally accepted in the United States of America, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information presents adjustments necessary to eliminate significant intercompany accounts and transactions. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated basic financial statements.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2017

Grantor/Pass-Through Grantor/Program or Cluster Title	CSFA#	Contract Identification Number	Award Amount	Grant Period	State Expenditures
State of Florida, Department of Health:					
Emergency Medical Services Matching Awards	64.003	M4207	$ 20,000	7/1/16-6/30/17	$ 19,863
Trauma Center Financial Support	64.075	TRA-16	N/A	7/1/16-6/30/17	491,939
Total State of Florida, Department of Health			$ 20,000		$ 511,802
Florida Department of State and Secretary of State:					
Specific Cultural Projects/Artists in Residence Program	45.062	17.5.114.210	$ 25,000	7/1/16-6/30/17	$ 25,000
Total Florida Department of State and Secretary of State			$ 25,000		$ 25,000
State of Florida, Department of Elder Affairs:					
Pass-Through Program from Mid-Florida Area Agency on Aging, Inc. and Department of Elder Affairs:					
Community Care for the Elderly	65.010	CCE-16-ECAC	$ 408,778	7/1/16-6/30/17	$ 408,778
Home Care for the Elderly	65.001	HCE-16-ECAC	25,424	7/1/16-6/30/17	25,424
Alzheimer's Disease Initiative - Model Day Care	65.002	ADI-16-ECAC	126,355	7/1/16-6/30/17	126,355
Local Service Program - Expanded Adult Day Care	65.009	LSP-16-ECAC	20,452	7/1/16-6/30/17	20,452
Alzheimer's Disease Initiative - In home Respite	65.004	ADI-16-ECAC	153,223	7/1/16-6/30/17	153,223
Total State of Florida, Department of Elder Affairs			$ 734,232		$ 734,232
Total Expenditures of State Financial Assistance					$ 1,271,034

The accompanying note is an integral part of this Schedule of Expenditures of State Financial Assistance.

1. Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance (the "Schedule") includes the state grant activity of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries ("Shands"), and is presented on the accrual basis of accounting.

The information in this Schedule is presented in accordance with the requirements of Chapter 10.550, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of Shands, it is not intended to and does not present the financial position, changes in net position, or cash flows of Shands. The purpose of the Schedule is to present a summary of those activities of Shands for the year ended June 30, 2017, which have been financed by the state government. For purposes of the Schedule, state financial assistance includes any assistance provided by a state agency directly or indirectly in the form of grants and contracts.

Direct and indirect costs are charged to awards in accordance with cost principles contained in the Department of Health and Human Services, Office of the Assistant Secretary Comptroller ("OASC"), OASC-3, *A Guide for Hospitals*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

Report of Independent Certified Public Accountants 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*

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

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, the consolidated basic financial statements of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries ("Shands"), a component unit of the University of Florida, which comprise the consolidated basic statements of net position as of June 30, 2017, and the related consolidated basic statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the consolidated basic financial statements, and have issued our report thereon dated September 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated basic financial statements, we considered Shands' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shands' internal control. Accordingly, we do not express an opinion on the effectiveness of Shands' 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 may exist that have not been identified.

PricewaterhouseCoopers LLP, 4040 West Boy Scout Boulevard, Suite 1000, Tampa, FL 33607-5745
T: (813) 229 0221, F: (813) 229 3646, www.pwc.com/us

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shands' consolidated basic financial statements are free from 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 determination of financial statement amounts. 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 Shands' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shands' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

September 28, 2017

Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major State Financial Assistance Program and on Internal Control Over Compliance in Accordance with Chapter 10.550, *Rules of the Auditor General*

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

Report on Compliance for Each Major State Financial Assistance Program

We have audited Shands Teaching Hospital and Clinics, Inc. and Subsidiaries' ("Shands"), a component unit of the University of Florida, compliance with the types of compliance requirements described in the *Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on each of Shands' major state financial assistance programs for the year ended June 30, 2017. Shands' major state financial assistance programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations and the terms and conditions of its state financial assistance awards applicable to its state financial assistance programs.

Independent Certified Public Accountants' Responsibility

Our responsibility is to express an opinion on compliance for each of Shands' major state financial assistance programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Chapter 10.550, *Rules of the Auditor General*. Those standards and Chapter 10.550, *Rules of the Auditor General,* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state financial assistance program occurred. An audit includes examining, on a test basis, evidence about Shands' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state financial assistance program. However, our audit does not provide a legal determination of Shands' compliance.

Opinion on Each Major State Financial Assistance Program

In our opinion, Shands complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state financial assistance programs for the year ended June 30, 2017.

PricewaterhouseCoopers LLP, 4040 West Boy Scout Boulevard, Suite 1000, Tampa, FL 33607-5745
T: (813) 229 0221, F: (813) 229 3646, www.pwc.com/us

Report on Internal Control Over Compliance

Management of Shands is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Shands' internal control over compliance with the types of requirements that could have a direct and material effect on each major state financial assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state financial assistance program and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shands' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 23, 2017

Section I: Summary of Auditor's Results

Financial Statements		
Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Noncompliance material to the financial statements noted?	____ Yes	__X__ No
State Financial Assistance		
Internal control over state assistance:		
Material weaknesses identified?	____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Type of auditor's report issued on compliance for state assistance:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with of Chapter 10.550, *Rules of the Auditor General*?	____ Yes	__X__ No

Identification of major state financial assistance programs:

State Financial Assistance:

CSFA Number	**Name of State Financial Assistance Project**
64.075	Trauma Center Financial Support
65.010	Community Care for the Elderly

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk?	_____ Yes	__X__ No

Section II: Financial Statement Findings

None noted.

Section III: State Financial Assistance Projects Findings and Questioned Costs

None noted.

None noted.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Letter of Comments and Recommendations
June 30, 2017

pwc

October 23, 2017

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

In planning and performing our audit of the consolidated basic financial statements of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries (the "Company"), as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated basic financial statements, but not for the purpose of expressing an opinion on the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the Company's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

AICPA AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, of the AICPA Professional Standards includes the following definitions of a deficiency, a significant deficiency and a material weakness:

- **Deficiency** - 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.

- **Significant Deficiency** - a deficiency, or 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.

- **Material Weakness** - a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Given the limitations described above, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

As we agreed in the Audit and Compliance Committee meeting on April 26, 2017, we are providing you with a list of operational and business observations. See Attachment to the Letter of Comments and Recommendations for detailed observations.

PricewaterhouseCoopers LLP, 4040 West Boy Scout Boulevard, Suite 1000, Tampa, FL 33607-5745
T: (813) 229 0221, F: (813) 229 3646, www.pwc.com/us

Independent Certified Public Accountant's Responsibility

We conducted our audit 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.

Other Reports and Schedule

We have issued our Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*, which is dated September 28, 2017 and the Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each State Financial Assistance Program and on Internal Control Over Compliance in Accordance with Chapter 10.550 *Rules of the Auditor General*; and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated October 23, 2017, should be considered in conjunction with this Letter of Comments and Recommendations.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The current status of comments reported in the preceding annual financial report is included in the status of prior year's recommendations in Section III of the attached Letter of Comments and Recommendations.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Letter of Comments and Recommendations, unless disclosed in the notes to the financial statements. Shands Teaching Hospital and Clinics, Inc. ("Shands") was incorporated on October 15, 1979 as a Florida not-for-profit corporation. The President of the University of Florida ("UF"), or his designee, serves as the President of Shands' Board of Directors and retains appointment and termination rights over a majority of the members of Shands' Board of Directors. The President of UF is deemed a state official as the position is appointed by a Board of Trustees that govern UF (the "UF Board"), and the members of the UF Board are appointed by the Governor and the Board of Governors of the State of Florida. University of Florida Health or "UF Health" encompasses the UF Health Science Center and Shands. Shands and certain of its affiliated entities operate under d/b/a's beginning with "UF Health."

Board of Directors of
Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
October 23, 2017

Financial Condition

Section 10.554(1)(i)5.a., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the Company has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Company did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the Company's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. In connection with our audit, our procedures did not disclose deteriorating financial conditions as defined in the aforementioned section.

Annual Financial Report

Section 10.554(1)(i)5.b., *Rules of the Auditor General*, requires that we report the results of our determination as to whether the annual financial report for the Company for the fiscal year ended June 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended June 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

Special District Components

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that the Company provided the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes to the University of Florida.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the Letter of Comments and Recommendations any recommendations to improve financial management. In connection with our audit, we are submitting for consideration the accompanying recommendations designed to help improve financial management.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Board of Directors of
Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
October 23, 2017

Purpose of this Letter

This letter is intended solely for the information and use of the Board of Directors and Audit and Compliance Committee of the Company, management, others within the organization, the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General and other granting agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

If you would like any further information or would like to discuss any of the issues raised, please contact Ann Payne, Engagement Partner, at (954) 356-5902.

Very truly yours,

PricewaterhouseCoopers LLP

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Letter of Comments and Recommendations
June 30, 2017

Page(s)

I. Recent Accounting Pronouncements from the Governmental Accounting Standards Board ("GASB") Applicable to the Company

The GASB has issued the following pronouncements which the Company will need to adopt over the next few fiscal years:

1. **GASB Statement No. 81, *Irrevocable Split-Interest Agreements***
   In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements* ("GASB No. 81"). GASB No. 81 improves accounting and financial reporting by establishing recognition and measurement requirements for irrevocable split-interest agreements which are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. GASB No. 81 is effective for fiscal years beginning after December 15, 2016.

2. **GASB Statement No. 83, *Certain Asset Retirement Obligations***
   In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations* ("GASB No. 83"). GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations ("ARO's"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. GASB No. 83 is effective for fiscal years beginning after June 15, 2018.

3. **GASB Statement No. 84, *Fiduciary Activities***
   In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* ("GASB No. 84"). The principal objective of GASB No. 84 is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. GASB No. 84 is effective for fiscal years beginning after December 15, 2018.

4. **GASB Statement No. 85, *Omnibus 2017***
   In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017* ("GASB No. 85"). GASB No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits. GASB No. 85 is effective for fiscal years beginning after June 15, 2017.

5. **GASB Statement No. 86, *Certain Debt Extinguishment Issues***
   In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues* ("GASB No. 86"). GASB No. 86 establishes standards of accounting and financial reporting including additional disclosure requirements for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished. GASB No. 86 is effective for fiscal years beginning after June 15, 2017.

6. **GASB Statement No. 87, *Leases***
   In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB No. 87"). GASB No. 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB No. 87 will require a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. GASB No. 87 is effective for fiscal years beginning after December 15, 2019.

As a result of the number of new pronouncements that the Company will need to implement over the next few fiscal years, including GASB No. 87, which may require changes to the Company's process and systems to capture the necessary information to implement this pronouncement, we recommend that Management take the necessary steps to understand and access the implications of each of the new pronouncements on a timely basis.

Management's Response:

Management is currently evaluating the impact of each of the above pronouncements on the Company's consolidated basic financial statements.

II. Evaluate and Refine Revenue Cycle Process

In the current environment, the revenue cycle within many healthcare organizations is growing increasingly complex, reflecting an uncertain and evolving regulatory environment, shifts in payment models and thinning margins. The revenue cycle within the Company has been without a permanent leader for more than a year; and, while it is anticipated a full-time permanent leader will be hired in the near future, this void, coupled with recent process and system changes as well as turnover in other key positions, could increase the level of estimation uncertainty in the Company's process of valuing accounts receivable.

Due to impact of these factors on the outstanding balance of accounts receivable at June 30, 2017, Management increased the allowance for contractual adjustments and bad debts as determined by its reserving model from approximately $13.5 million (2.6% of gross accounts receivable) at June 30, 2016 to approximately $23.5 million (3.8% of gross accounts receivable) at June 30, 2017.

In the coming year, the Company expects further refinements in its revenue cycle processes. Accordingly, management is encouraged to continue to prioritize the identification and continued development of talent within the department to promote a more stable and consistent environment in which to account for and value outstanding accounts receivable.

Management's Response:

Each year, management performs a hindsight analysis to validate the reasonableness of its prior year accounts receivable reserves including any additional reserves recorded. For the current year, the hindsight analysis indicated the prior year additional reserve of $13.5 million was reasonable and necessary to properly state net accounts receivable at June 30, 2016. Management concurs with our auditors that growth in the accounts receivable balances over the current year has increased uncertainty in our process for estimating accounts receivable reserves causing us to recognize an additional allowance for contractual adjustments and bad debts in the current year of approximately $10 million, increasing the total allowance for contractual adjustments and bad debts as determined by our reserving model to $23.5 million, which we believe is appropriate. Efforts are underway to reduce the outstanding accounts receivable through process redesign and staffing enhancements, which will improve the accuracy of our reserve estimates going forward.

Additionally, the Company will be hiring a new Vice President of Revenue Cycle in the near future, which will provide the department with additional leadership. A top priority of the new leader will be the identification and development of talent to improve the overall quality of the Revenue Cycle.

III. Status of Prior Year's Recommendations

In connection with an audit of the Company's June 30, 2016 consolidated basic financial statements, we made certain comments and recommendations, which have been reviewed in order to determine the status of implementation.

A summary of the status of prior year's recommendations is as follows:

Recommendations	Status
I. Recent Accounting Pronouncements:	
GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.	The standard is effective for fiscal years beginning after June 15, 2017. The Company terminated its Postemployment health insurance plan as of December 31, 2016 and therefore, the new pronouncement is not applicable to the Company.
GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.	The standard is effective for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact of this pronouncement as discussed in the previous section.
GASB Statement No. 82, *Pension Issues- an Amendment of GASB Statements No. 67, No. 68, and No. 73*.	The Company adopted GASB No. 82 as of July 1, 2016. The new pronouncement resulted in changes in disclosures regarding covered payroll information in the schedule of changes in net pension liability and related ratios and schedule of employer contributions included in the consolidated basic financial statements.
II. Focus on Cybersecurity	In connection with the Company's on-going risk assessment processes, the Company regularly assesses the adequacy of their cybersecurity program to address the rapidly changing cyber-risk landscape. There have been no significant cybersecurity breaches.