

Shands Jacksonville HealthCare, Inc. and Subsidiaries

**Consolidated Basic Financial Statements, Required
Supplementary Information and Supplemental
Consolidating Information
June 30, 2019 and 2018**

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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June 30, 2019 and 2018

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Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

Introduction

Below is Shands Jacksonville HealthCare, Inc. and Subsidiaries' ("SJH" or the "Company") analysis of its financial performance for the year ended June 30, 2019, with comparative information as of and for the years ended June 30, 2018 and 2017. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements and related note disclosures.

Organization

The Company, formerly known as Jacksonville Health Group, Inc., is a Florida not-for-profit corporation with direct or indirect legal control over numerous subsidiaries. The Company is an affiliated entity under common control of the University of Florida and receives operational services from Shands Teaching Hospital and Clinics, Inc. ("Shands").

Shands Jacksonville Medical Center, Inc. ("SJMC"), formerly known as University Medical Center, Inc. ("UMC"), is a Florida not-for-profit corporation and the principal operating subsidiary of the Company. SJMC operates a teaching hospital located in Jacksonville, Florida, through a lease with the City of Jacksonville (the "City"). During 2013, SJMC began doing business as UF Health Jacksonville.

On September 30, 1999, Methodist Medical Center, Inc., Methodist Health System, Inc. and The Methodist Hospital Foundation, Inc. (now known as Shands Jacksonville Properties, Inc., "SJP"), SJH, UMC and Shands completed an affiliation agreement (the "Affiliation") which allowed for the combination of the hospital operations of UMC and SJP under SJMC. SJH became the sole member of both SJMC and SJP.

Effective September 8, 2010, the Board of Directors of Shands approved a motion to reorganize its corporate structure. Under the reorganization, Shands would no longer be the sole corporate member of the Company, but would continue as an affiliated entity under common control of the University of Florida. Effective September 27, 2010, the Board of Directors of the Company approved the motion for Shands to no longer be the sole corporate member of the Company. The Company continues to receive management and operational services from Shands. As a part of the reorganization, the Company delivered a promissory note to Shands in the amount of approximately \$42,276,000, payable over 20 years, in acknowledgement of historical investments in the Company. Effective July 1, 2015, the Shands' Board of Directors reduced the promissory note by approximately \$17.7 million.

On February 17, 2015, the Company opened the first of a multi-stage effort to expand to a new location north of downtown Jacksonville, Florida, where it is doing business collectively as UF Health North. This initial effort included the Company offering a ground lease to a developer that constructed a new medical office building in which the Company leases space that includes a free-standing emergency department, surgical suites and other hospital based operations (commonly referred to as "North Phase I"). On May 23, 2017, the Company completed construction on a new 92-bed tower (commonly referred to as "North Phase II"), which adjoins North Phase I. The Company converted rooms at its original location (known as "Downtown") from semi-private to private, so the new bed tower does not increase the Company's total licensed beds, which remain at 695.

The accompanying consolidated basic financial statements include the accounts of the Company and its subsidiaries as of and for the years ended June 30, 2019 and 2018. The "Company" in these consolidated basic financial statements refers to the consolidated operations of these entities. Significant transactions between these entities have been eliminated.

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Overview of the Consolidated Basic Financial Statements

Along with management's discussion and analysis, the annual financial report includes the independent auditors' report and the consolidated basic financial statements of the Company. The consolidated basic financial statements also include notes that explain in more detail some of the information in the consolidated basic financial statements. By referring to the accompanying notes to the consolidated basic financial statements, a broader understanding of issues impacting financial performance can be realized.

Required Financial Statements

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

The consolidated basic statements of net position reflect all of the Company's assets, liabilities and 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 statement is to reflect the key sources and uses of cash during the reporting period.

Financial Analysis of the Company

Consolidated Basic Statements of Net Position

The Company's net position is one indicator of the current financial condition of the Company. 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 the Company. However, the financial statement user should consider other nonfinancial factors, such as changes in economic conditions, population changes, regulations and government legislation affecting the health care industry. Assets, liabilities and deferred inflows and outflows are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
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June 30, 2019 and 2018

A summary of the Company's condensed consolidated basic statements of net position as of June 30 is presented below:

(in thousands of dollars)

| | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|
| Cash and cash equivalents and short-term investments | \$ 104,026 | \$ 104,092 | \$ 101,839 |
| Other current assets | 151,516 | 145,824 | 137,781 |
| Capital assets, net | 249,153 | 265,717 | 265,681 |
| Other noncurrent assets | 44,609 | 42,603 | 53,994 |
| Total assets | <u>549,304</u> | <u>558,236</u> | <u>559,295</u> |
| Deferred outflows of resources | <u>6,033</u> | <u>6,285</u> | <u>7,830</u> |
| Current liabilities | 117,533 | 112,087 | 107,045 |
| Noncurrent liabilities | 240,934 | 251,426 | 262,859 |
| Total liabilities | <u>358,467</u> | <u>363,513</u> | <u>369,904</u> |
| Deferred inflows of resources | <u>6,942</u> | <u>7,522</u> | <u>6,967</u> |
| Net position | | | |
| Net investment in capital assets | 43,600 | 51,263 | 51,330 |
| Restricted | | | |
| Expendable | 4,793 | 5,153 | 4,794 |
| Unrestricted | 141,535 | 137,070 | 134,130 |
| Total net position | <u>\$ 189,928</u> | <u>\$ 193,486</u> | <u>\$ 190,254</u> |

During 2019, cash and cash equivalents and short-term investments decreased by approximately \$0.1 million, or 0.1%. Cash generated from operations was approximately \$61.6 million. During 2018, cash and cash equivalents and short-term investments increased by approximately \$2.3 million, or 2.2%. Cash generated from operations was approximately \$64.6 million. See "Consolidated Basic Statements of Cash Flows" section below for further information regarding cash activity.

Other current assets increased by approximately \$5.7 million, or 3.9% during 2019. The increase is mainly due to \$3.8 million increase in net patient accounts receivable. During fiscal year 2018, other current assets increased by approximately \$8.0 million, or 5.8%. The increase is mainly due to \$7.7 million increase in net patient accounts receivable.

Capital assets, net, decreased approximately \$16.6 million, or 6.2%, during 2019, with a \$17.7 million increase in assets offset by \$34.3 million of depreciation. The June 30, 2018 balance of capital assets, net, was consistent with June 30, 2017 as capital asset additions approximated depreciation expense during 2018.

Other noncurrent assets increased \$2.0 million, or 4.7% during 2019, primarily due to \$0.9 million increase in deposits; \$0.8 million increase of contributed capital in a direct service organization (GatorCare Health Management Corporation) that provides employee health plans; a \$0.2 million increase in bond swap fair value. During 2018, other noncurrent assets decreased approximately \$11.4 million, or 21.1%, primarily from a \$6.9 million draw down of Series 2015 project fund balances for their intended purpose; a reduction in Series 2015 bond swap fair value of \$1.3 million; a \$2.8 million reduction of contributed capital in a direct service organization (GatorCare Health Management Corporation) that provides employee health plans.

Shands Jacksonville HealthCare, Inc. and Subsidiaries Management's Discussion and Analysis (Unaudited) June 30, 2019 and 2018

During 2019, deferred outflows of resources decreased by approximately \$0.3 million, or 4.0%, with a \$0.1 million increase attributed to the pension plan, a \$0.2 million increase in market value of bond swaps, offset by \$0.6 million decrease to other postemployment benefits. During 2018, deferred outflows of resources decreased by approximately \$1.5 million, or 19.7%, primarily related to the pension plan, a \$2.9 million decrease, offset by a \$1.5 million increase related to other postemployment benefits.

Current liabilities increased approximately \$5.4 million, or 4.9%, during 2019. Contributors include an increase related to the new \$7.3 million short-term note payable to University of Florida Jacksonville Physicians, Inc. ("UFJPI"); a \$0.3 million increase in the current portion due on long-term debt and leases; a \$2.1 million increase for accrued salaries and leave payable; which were offset by a \$2.9 million decrease for estimated third party liabilities; a \$0.9 million decrease in trade accounts payable and other accrued expenses; a \$0.5 million decrease in patient credit balances. During 2018, current liabilities increased approximately \$5.0 million, or 4.7%. Contributors include a \$2.4 million increase for accrued salaries and leave payable; a \$15.0 million increase in trade accounts payable and other accrued expenses; a \$1.0 million net increase for the current portion due on new long-term debt and leases; offset by a \$13.4 million decrease for estimated third party liabilities.

Noncurrent liabilities decreased approximately \$10.5 million, or 4.2%, since June 30, 2018, primarily related to a \$10.2 million decrease for debt and capital lease payments and reclassifications to current portions due, a \$0.4 million decrease for other accrued postretirement benefit accruals, offset by a \$0.1 million increase in the market value of bond swaps. During 2018, noncurrent liabilities decreased approximately \$11.4 million, or 4.3%, primarily related to \$6.7 million for debt and capital lease payments and reclassifications to current portions due, offset by a new capital lease addition; a \$6.4 million reduction for pension activity; a \$0.6 million decrease in the market value of bonds swaps; offset by an increase of \$2.2 million for other accrued postretirement benefit accruals related to the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75") as of July 1, 2017.

During 2019, deferred inflows of resources decreased by approximately \$0.6 million, or 7.7%, with a \$1.1 million decrease attributed to the pension plan, offset by a \$0.3 million increase attributed to other postemployment benefits and a \$0.2 million increase attributed to the fair value of hedged derivatives. During 2018, deferred inflows of resources increased by approximately \$0.6 million, or 8.0%, primarily related to a \$1.9 million increase for the pension plan, offset by a \$1.3 million decrease in the fair value of hedged derivatives, with the remainder related to other postemployment benefits.

As of June 30, 2019, the Company has approximately \$243.0 million in debt outstanding compared to approximately \$244.0 million at June 30, 2018. The decrease is from making payments as scheduled, offset by the new \$7.3 million short-term note payable to UFJPI, which was effective June 27, 2019. As of June 30, 2019, the Company has approximately \$5.4 million of capital leases, which is a decrease of \$1.6 million since the approximately \$7.0 million balance at June 30, 2018. The decrease is from making scheduled payments offset with \$0.3 million of new capital leases. On December 10, 2015, \$85.0 million Healthcare Facilities Revenue Bonds (UF Health – Jacksonville Project), Series 2015, were issued. The proceeds of this debt were used for financing, refinancing or reimbursement for costs of certain capital improvements including the cost of the construction and equipping North Phase II, other miscellaneous improvements and paying costs associated with the issuance of the Bonds. On March 1, 2015, the Company entered into an interest only \$20 million Revolving Line of Credit Note, Series 2015A, and was advanced the entire amount, which was initially due and payable in full by March 6, 2020, unless extended. The Company executed an extension of the Revolving Line of Credit Note, Series 2015A on June 28, 2019 making the full amount outstanding due and payable by October 31, 2020. The proceeds of Series 2015A Note were used primarily for general corporate expenditures. On June 29, 2015, the Company closed on the \$20 million issuance of City of Jacksonville, Florida Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project), Series 2015, which matures on June 30, 2025. The purpose of Series 2015 Bonds was for financing, refinancing and reimbursing the costs of capital

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June 30, 2019 and 2018

improvements and for paying for costs of issuance. On March 2, 2015, the Company borrowed \$6.2 million under a master lease agreement. During 2013, SJMC borrowed approximately \$123.6 million with the issuance of Healthcare Facilities Revenue Bonds Series 2013A and 2013B, for approximately \$64.2 million and \$59.4 million, respectively, on November 21, 2013. The proceeds of this issuance refunded the \$100 million Series 2013 Shands Jacksonville Medical Center Taxable Notes, paid for the cost of debt issuance, provided for a debt service reserve fund and was used to reimburse or fund capital projects.

The promissory note owed to Shands in an original amount of approximately \$42.3 million, as mentioned above, was recorded by the Company during 2011. Subsequently, the note was reduced by approximately \$17.7 million when the Company's Board of Directors agreed to accept the offer from the Shands Board of Directors effective July 1, 2015.

The Company was in compliance with all financial covenants as of June 30, 2019 and 2018.

Consolidated Basic Statements of Revenues, Expenses and Changes in Net Position

The following table presents the Company's condensed consolidated basic statements of revenues, expenses and changes in net position. The table presents the extent to which the Company's overall net position increased (decreased) as a result of operations or other reasons.

(in thousands of dollars)

| | 2019 | 2018 | 2017 |
|---|-------------------|-------------------|-------------------|
| Net patient service revenue | \$ 739,037 | \$ 705,617 | \$ 683,620 |
| Other operating revenue | 14,644 | 13,474 | 12,788 |
| Total operating revenues | <u>753,681</u> | <u>719,091</u> | <u>696,408</u> |
| Operating expenses | <u>717,352</u> | <u>684,007</u> | <u>655,713</u> |
| Operating income | 36,329 | 35,084 | 40,695 |
| Nonoperating (expenses) revenue, net | <u>(7,672)</u> | <u>40</u> | <u>(5,995)</u> |
| Excess of revenues over expenses before transfers and capital contributions | 28,657 | 35,124 | 34,700 |
| Other changes in net assets | | | |
| Transfers and expenditures in support of the University of Florida and its medical programs | (32,272) | (31,901) | (34,118) |
| Capital contributions, net | <u>57</u> | <u>9</u> | <u>293</u> |
| (Decrease) increase in net position | (3,558) | 3,232 | 875 |
| Net position | | | |
| Beginning of year | <u>193,486</u> | <u>190,254</u> | <u>189,379</u> |
| End of year | <u>\$ 189,928</u> | <u>\$ 193,486</u> | <u>\$ 190,254</u> |

Patient Volumes

The following table reflects the associated volumes on a comparative basis to years ended June 30:

| | 2019 | 2018 | 2017 |
|----------------------|---------|---------|---------|
| Inpatient admissions | 26,775 | 28,107 | 26,829 |
| Outpatient visits | 564,146 | 587,462 | 578,821 |

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During 2019, inpatient admissions, excluding observation cases, decreased by 1,332, or 4.7%, as admissions shifted from the inpatient to observation setting. Outpatient visits decreased by 23,316, or 4.0%, primarily because the Company sold outpatient dialysis program assets at the end of fiscal year 2018 and no longer provides outpatient dialysis services.

During 2018, inpatient admissions, excluding observation cases, increased by 1,278, or 4.8%, and outpatient visits increased by 8,641, or 1.5%. The inpatient and outpatient increases are largely from UF Health North.

Operating Revenues

During 2019, patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, increased approximately \$33.4 million, or 4.7% over 2018, which is largely due to increased surgical case volume and case mix index. During 2018, patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, increased approximately \$22.0 million, or 3.2% over prior fiscal year-to-date, which is largely due to UF Health North and the favorable revenue deduction adjustment (\$2.3 million) from revising the self-disclosure reserve for Office of the Inspector General of the Department of Health and Human Services (the "OIG") over payments, which, upon settlement, was less than the original estimate. Downtown revenue was unfavorably impacted by Hurricane Irma in September 2017.

Other operating revenue increased approximately \$1.2 million, or 8.7%, during 2019, primarily related contract billing for information technology support provided to UFJPI, as discussed further below. During 2018, other operating revenue increased approximately \$0.7 million, or 5.4%, primarily related to a large donation.

Operating Expenses

During 2019, operating expenses increased approximately \$33.3 million, or 4.9%. Salaries and benefits increased approximately \$12.2 million, or 3.8%, which relates to the scheduled 2% merit increase effective January 2019, the transfer of information technology staff from UFJPI, as well as continued recruiting for North Phase II operations. Supplies and services increased approximately \$22.9 million, or 7.1%, mainly due to a \$14.0 million increase in medical supplies related to additional utilization of costly infusion oncology drugs and neurosurgical implants; a \$3.8 million increase in professional fees related to a one-time consulting project and a contract change for infusion oncology services; the timing of a prior year reduction of OIG penalties of \$3.3 million, mentioned below; and, a \$1.2 million increase in contribution expense. Depreciation expense decreased \$1.8 million, or 4.9%.

During 2018, operating expenses increased approximately \$28.3 million, or 4.3%. Salaries and benefits increased approximately \$18.7 million, or 6.1%, which is largely the result of additional staffing for North Phase II operations, as well as a scheduled 2% merit increase effective January 2018, and significant overtime during Hurricane Irma. Supplies and services increased approximately \$4.2 million, or 1.3%, due to a \$6.3 million increase in purchased services, a \$3.4 million increase in medical supplies, which were offset by favorable reduction of penalties (\$3.3 million) related to the OIG reserve adjustment mentioned above; reduced legal and professional fees (\$1.1 million) and lower recruiting expenses (\$0.9 million). Depreciation expense increased \$5.3 million, or 17.2%, primarily because of assets placed in service for North Phase II.

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Nonoperating Revenues (Expenses), net

Nonoperating expenses, net, for fiscal year 2019, were approximately \$7.7 million, predominantly related to interest expense of approximately \$9.8 million, offset by net investment gains of approximately \$2.0 million (including the increase in fair value of approximately \$0.5 million) and an increase in fair value of the nonhedged derivatives in other nonoperating gains of \$0.1 million.

Nonoperating revenue, net, for fiscal year 2018, were approximately \$40,000, which includes a net gain of disposal of assets of \$8.0 million, mainly from the sale of outpatient dialysis program assets; net investment gains of approximately \$1.2 million, which includes an increase in fair value of approximately \$0.03 million; approximately \$0.3 million of other nonoperating gains for an increase in fair value of the nonhedged derivatives; offset by interest expense of approximately \$9.6 million.

Consolidated Basic Statements of Cash Flows

The consolidated basic statements of cash flows provide additional information in regards to the Company's financial results by reporting the major sources and uses of cash.

During 2019, cash and cash equivalents decreased by approximately \$1.1 million, or 1.0%. Cash inflows were primarily related to net cash provided in operating activities of \$61.6 million, \$7.3 million of short-term debt proceeds and \$1.0 million of investment income. Cash outflows were primarily payments of \$29.3 million in support of UF and its medical programs; payments for acquisition of capital assets of \$20.8 million; debt, lease, other borrowing and interest payments of \$19.9 million and purchase of short-term investments and assets limited as to use of \$1.1 million.

During 2018, cash and cash equivalents increased by approximately \$13.2 million, or 14.6%. Cash inflows were primarily related to net cash provided in operating activities of \$64.6 million; redemption of short-term investments and assets whose use is restricted of \$38.3 million, which included drawing down over \$6.9 million from the Series 2015 \$85 million capital project funds for North Phase II; proceeds from the sale of capital assets, primarily those of the outpatient dialysis program, of \$8.3 million; and \$1.8 million of investment income. Cash outflows were primarily payments of \$26.2 million in support of UF and its medical programs; payments for acquisition of capital assets of \$33.8 million; purchases of short-term investments and assets whose use is restricted of \$20.6 million, which includes transfers of bank deposits to SPIA of \$20 million; and, debt, lease, other borrowing and interest payments of \$19.3 million. The Company provided \$2.0 million to fund the defined benefit pension plan.

Credit Ratings

The Company's underlying credit rating of BBB- was published by Fitch Ratings in November 2018 with a stable outlook. Moody's Investor Service reaffirmed a Baa3 credit rating in February 2019, with a stable outlook.



Report of Independent Auditors

To the Board of Directors of
Shands Jacksonville HealthCare, Inc. and Subsidiaries

We have audited the accompanying consolidated basic financial statements of Shands Jacksonville HealthCare, Inc. and its subsidiaries (the "Company"), a component unit of the University of Florida, which comprise the consolidated basic statements of net position as of June 30, 2019 and 2018, and the related consolidated basic statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated basic financial statements.

Management's Responsibility for the Consolidated Basic Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated basic financial statements referred to above present fairly, in all material respects, the financial position of Shands Jacksonville HealthCare, Inc. and its subsidiaries as of June 30, 2019 and 2018, the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis (unaudited) on pages 1 through 7 the schedule of changes in the net pension (asset) liability and related ratios (unaudited) on page 45, and the schedule of employer contributions (unaudited) on page 46 are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The supplemental consolidating information on pages 47 through 51 is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. The supplemental consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The supplemental consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

PricewaterhouseCoopers L.L.P.

Jacksonville, Florida
September 25, 2019

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Net Position
June 30, 2019 and 2018

(in thousands of dollars)

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 102,597 | \$ 103,649 |
| Short-term investments | 1,429 | 443 |
| Patient accounts receivable, net of allowance for uncollectibles of \$63,883 and \$74,118, respectively | 118,916 | 115,095 |
| Due from city and state agencies | 871 | 66 |
| Inventories | 16,691 | 16,576 |
| Prepaid expenses and other current assets | 11,623 | 11,319 |
| Assets whose use is restricted, current portion | 3,415 | 2,768 |
| Total current assets | <u>255,542</u> | <u>249,916</u> |
| Assets whose use is restricted, less current portion | 26,045 | 26,005 |
| Capital assets, net | 249,153 | 265,717 |
| Other assets | 18,564 | 16,598 |
| Total assets | <u>549,304</u> | <u>558,236</u> |
| Deferred outflows of resources | | |
| Accumulated decrease in fair value of hedge derivatives | 176 | - |
| Deferred other postemployment benefits outflows | 1,829 | 2,392 |
| Deferred pension outflows | 4,028 | 3,893 |
| Total deferred outflows of resources | <u>6,033</u> | <u>6,285</u> |
| Liabilities | | |
| Current liabilities | | |
| Short-term and long-term debt, current portion | 15,784 | 8,205 |
| Capital lease obligations, current portion | 1,830 | 1,788 |
| Accounts payable and accrued expenses | 60,344 | 61,745 |
| Accrued salaries and leave payable | 34,655 | 32,566 |
| Estimated third-party payor settlements | 4,920 | 7,783 |
| Total current liabilities | <u>117,533</u> | <u>112,087</u> |
| Long-term liabilities | | |
| Long-term debt, noncurrent portion | 227,245 | 235,833 |
| Capital lease obligations, noncurrent portion | 3,541 | 5,180 |
| Other liabilities | 10,148 | 10,413 |
| Total long-term liabilities | <u>240,934</u> | <u>251,426</u> |
| Total liabilities | <u>358,467</u> | <u>363,513</u> |
| Deferred inflows of resources | | |
| Accumulated increase in fair value of hedge derivatives | 3,101 | 2,862 |
| Deferred other postemployment benefits inflows | 510 | 233 |
| Deferred pension inflows | 3,331 | 4,427 |
| Total deferred inflows of resources | <u>6,942</u> | <u>7,522</u> |
| Commitments and contingencies | | |
| Net position | | |
| Net investment in capital assets | 43,600 | 51,263 |
| Restricted | | |
| Expendable | 4,793 | 5,153 |
| Unrestricted | 141,535 | 137,070 |
| Total net position | <u>\$ 189,928</u> | <u>\$ 193,486</u> |

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Revenues, Expenses, and
Changes in Net Position
Years Ended June 30, 2019 and 2018

(in thousands of dollars)

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Operating revenues | | |
| Net patient service revenue, net of provision for bad debts of \$64,316 and \$66,261, respectively | \$ 739,037 | \$ 705,617 |
| Other operating revenue | 14,644 | 13,474 |
| Total operating revenues | <u>753,681</u> | <u>719,091</u> |
| Operating expenses | | |
| Salaries and benefits | 337,360 | 325,097 |
| Supplies and services | 345,693 | 322,827 |
| Depreciation and amortization | 34,299 | 36,083 |
| Total operating expenses | <u>717,352</u> | <u>684,007</u> |
| Operating income | <u>36,329</u> | <u>35,084</u> |
| Nonoperating revenues (expenses) | | |
| Interest expense | (9,821) | (9,558) |
| Net investment gain, including change in fair value | 2,023 | 1,226 |
| Gain on disposal of capital assets, net | 20 | 8,034 |
| Other nonoperating gain (loss), net | 106 | 338 |
| Total nonoperating (expense) revenue, net | <u>(7,672)</u> | <u>40</u> |
| Excess of revenues over expenses before transfers and capital contributions | 28,657 | 35,124 |
| Transfers and expenditures in support of the University of Florida and its medical programs | (32,272) | (31,901) |
| Capital contributions, net | 57 | 9 |
| (Decrease) increase in net position | <u>(3,558)</u> | <u>3,232</u> |
| Net position | | |
| Beginning of year | 193,486 | 190,254 |
| End of year | <u>\$ 189,928</u> | <u>\$ 193,486</u> |

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows
Years Ended June 30, 2019 and 2018

(in thousands of dollars)

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Cash received from patients and third-party payors | \$ 731,548 | \$ 686,076 |
| Other receipts from operations | 15,208 | 12,703 |
| Salaries and benefits paid to employees | (336,840) | (320,904) |
| Payments to suppliers and vendors | (348,268) | (313,289) |
| Net cash provided by operating activities | <u>61,648</u> | <u>64,586</u> |
| Cash flows from noncapital financing activities | | |
| Interest paid on Shands note | (674) | (715) |
| Payments in support of the University of Florida and its medical programs | (29,291) | (26,222) |
| Payments of long-term debt to Shands | (935) | (894) |
| Proceeds from disposal of noncapital assets | 17 | 79 |
| Net cash used in noncapital financing activities | <u>(30,883)</u> | <u>(27,752)</u> |
| Cash flows from capital and related financing activities | | |
| Payments for capital assets | (20,800) | (33,764) |
| Proceeds from sale of capital assets | - | 8,315 |
| Proceeds from issuance of short-term debt | 7,300 | - |
| Payments of long-term debt and capital lease obligations | (9,242) | (9,060) |
| Interest paid | (9,019) | (8,647) |
| Capital contributions | 57 | 9 |
| Net cash used in capital and related financing activities | <u>(31,704)</u> | <u>(43,147)</u> |
| Cash flows from investing activities | | |
| Investment income received | 1,022 | 1,813 |
| Redemption of short-term investments and assets whose use is restricted | - | 38,322 |
| Purchase of short-term investments and assets whose use is restricted | (1,135) | (20,587) |
| Net cash (used in) provided by investing activities | <u>(113)</u> | <u>19,548</u> |
| Net (decrease) increase in cash and cash equivalents | (1,052) | 13,235 |
| Cash and cash equivalents | | |
| Beginning of year | <u>103,649</u> | <u>90,414</u> |
| End of year | <u>\$ 102,597</u> | <u>\$ 103,649</u> |

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows (continued)
Years Ended June 30, 2019 and 2018

(in thousands of dollars)

| | 2019 | 2018 |
|--|-----------|-----------|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 36,329 | \$ 35,084 |
| Adjustments to operating income to net cash provided by operating activities | | |
| Depreciation and amortization | 34,299 | 36,083 |
| Provision for bad debts | 64,316 | 66,261 |
| Changes in | | |
| Patient accounts receivable | (68,939) | (74,000) |
| Prepaid expenses, inventories and other current assets | 47 | (297) |
| Other assets | (1,298) | 4,064 |
| Accounts payable and accrued expenses | 912 | 13,077 |
| Estimated third-party payor settlements | (2,863) | (13,377) |
| Other liabilities | (1,155) | (2,309) |
| Total adjustments | 25,319 | 29,502 |
| Net cash provided by operating activities | \$ 61,648 | \$ 64,586 |
| Disclosure of supplemental cash flow information | | |
| Capital assets purchased through capital lease obligations and other borrowings | \$ 272 | \$ 4,267 |
| Net increase in fair value of investments | 539 | 29 |
| Net change in fair value of nonhedged derivatives and other nonoperating losses | 106 | 338 |
| Loss related to undepreciated costs on capital asset disposals | 4 | 360 |
| Accrued purchases of property and equipment | 1,806 | 5,140 |

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2019 and 2018

1. Organization

Shands Jacksonville HealthCare, Inc. (“SJH” or the “Company”), formerly known as Jacksonville Health Group, Inc., is a not-for-profit corporation with direct control over Shands Jacksonville Medical Center, Inc. (“SJMC”) and direct or indirect control over numerous other entities, all of which are blended in the accompanying consolidated basic financial statements. During 2013, SJMC began doing business as UF Health Jacksonville. SJMC, formerly known as University Medical Center, Inc. (“UMC”), is a Florida not-for-profit corporation and the principal operating subsidiary of the Company. SJMC is licensed to operate a total of 695 beds at two locations; one in downtown and one in north Jacksonville, Florida. Through a lease with the City of Jacksonville (the “City”) under the terms described in Note 11, the downtown campus operates a teaching hospital and provides clinical settings for medical education programs of the University of Florida (“UF”). SJH is a component unit of UF.

SJH, SJMC and Shands Jacksonville Properties Inc. (“SJP”) are members of the Obligated Group as defined in the Master Trust Indenture dated June 1, 2013. Shands Jacksonville Foundation, Inc. and Shands Jacksonville Community Services, Inc. are affiliated with the Company but are not a part of the Obligated Group.

The President of UF, or his designee, is responsible for the oversight of the Company. The President of UF is appointed by a Board of Trustees that governs UF (the “UF Board”). The members of the UF Board are appointed by the Governor and Board of Governors of the state of Florida.

Under a 2010 reorganization, Shands Teaching Hospital and Clinics, Inc. (“Shands”) is no longer the sole corporate member of the Company, but continues as an affiliated entity under common control of UF. The Company continues to receive management and operational services from Shands.

2. Summary of Significant Accounting Policies

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 the Company and its subsidiaries. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Tax Status

The Company 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2019 and 2018

Cash and Cash Equivalents

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

Investments

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

The estimated fair value of investments is based on quoted market prices. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated basic statements of revenues, expenses, and changes in net position in the period such fluctuations occur.

Inventories

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

Assets Whose Use is Restricted

Assets whose use is restricted are cash and cash equivalents comprised of a debt service reserve fund, swap collateral and internally designated funds for clinical support, education, research, and other health programs and amounts to be used for mandatory redemption of bonds.

Capital Assets

Capital assets are recorded at cost, except for donated items, which are recorded at fair value at the date of receipt as an addition to net position. 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. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the related depreciable assets. Capital assets 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 dispositions are recorded in the year of disposal.

Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction or development of capital assets are expensed as incurred. Bond issue costs are expensed at the time of issuance. There was approximately \$1,160,000 and \$1,230,000 of net unamortized original premiums for the Series 2015 and 2013A Bonds at June 30, 2019 and 2018, respectively, which will be amortized over the remaining periods of the obligations using the effective interest method.

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, separately reported.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2019 and 2018

Accrued Personal Leave

The Company provides accrued time off to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. The Company accrues the estimated expense related to personal leave based on pay rates currently in effect. Upon termination of employment, employees will have their eligible accrued personal leave paid in full. Accrued personal leave was approximately \$16,335,000 and \$15,956,000 as of June 30, 2019 and 2018, respectively, and is included in accrued salaries and leave payable in the accompanying consolidated basic statements of net position.

Defined Benefit Pension Plan

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

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 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.

Short-Term and Long-Term Debt

Short-term debt is comprised of a note payable. Long-term debt is comprised of tax exempt bond issues, a note payable and revolving debt.

Net Position

Net position is categorized as "net investment in capital assets," "restricted - expendable," and "unrestricted." Net investment in capital assets is intended to reflect the portion of net position that is associated with nonliquid capital assets, less outstanding balances due on borrowings used to finance the purchase or construction of those assets related to debt. 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 – expendable have restrictions placed on their use through external constraints imposed by contributors. Unrestricted are those that do not meet the definition of net investment in capital assets and have no third-party restrictions on use.

Operating Revenues and Expenses

The Company's 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, the Company's principal activity. Operating expenses are all expenses incurred to provide health care services. Net investment income, interest expense, and gain (loss) on disposal of assets are reported as nonoperating revenues (expenses). Donations received for the purpose of acquiring or constructing capital assets are recorded below nonoperating revenues (expenses) as capital contributions, net.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2019 and 2018

Net Patient Service Revenue and Patient Accounts Receivable

SJMC has agreements with third-party payors that provide for payments to SJMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at the 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, 2019 and 2018, net patient service revenue increased by approximately \$1,284,000 and \$10,043,000, respectively, due to such adjustments.

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

Medicare

The Company participates in the federal Medicare program. Approximately 31% and 30% of the Company's net patient service revenue for the years ended June 30, 2019 and 2018, 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 Diagnostic Related Groups that is based on clinical, diagnostic, and other factors.

Inpatient nonacute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Company is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits by the Medicare fiscal intermediary. The Company's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2019, Medicare cost reports through June 30, 2010, and for fiscal years ended June 30, 2015 and June 30, 2016, were final settled by the Company's Medicare fiscal intermediary.

Medicaid

The Company participates in the State of Florida Medicaid program. The Agency for Health Care Administration is the administrator of the Statewide Medicaid Managed Care Managed Medical Assistance ("MMA") Program in the State of Florida. The MMA program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and Children's Medical Services Network. The majority of Medicaid beneficiaries are required to enroll in the MMA program. Approximately 13% and 15% of the Company's net patient service revenue for the years ended June 30, 2019 and 2018, respectively, was derived from services to Medicaid beneficiaries. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed at prospectively determined rates based upon Enhanced Ambulatory Patient Groupings ("EAPGs"). Prior to July 1, 2017, outpatient services were reimbursed based upon a cost reimbursement methodology subject to certain ceilings.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2019 and 2018

In addition to the prospectively determined rates per discharge and EAPG payments received by the Company for the provision of health care services to Medicaid beneficiaries, the State of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in net patient service revenue in the accompanying consolidated basic statements of revenues, expenses and changes in net position. As of June 30, 2019, the Medicaid cost reports have been audited by Medicaid fiscal intermediary through June 30, 2015.

The Company qualified for additional Medicaid reimbursement for quarterly Graduate Medical Education ("GME") and transitional payments.

Other Third-Party Payors

The Company 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 includes 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 these reviews 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 the Company's policies.

Risk Management

The Company 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, 2019 and 2018.

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

Derivative Financial Instruments

The Company uses interest rate swaps to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The interest rate swaps are evaluated for hedge effectiveness. If the interest rate swap 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. The Company accounts for changes in fair value of interest rate swaps that do not qualify for hedge accounting within other nonoperating losses in the consolidated basic statements of revenues, expenses, and changes in net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2019 and 2018

Recent Accounting Pronouncements

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations* ("GASB No. 83"). GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations which are legally enforceable liabilities associated with the retirement of a tangible capital asset. GASB No. 83 is effective for reporting periods beginning after June 15, 2018. The Company adopted GASB No. 83 in the consolidated basic financial statements for the year ended June 30, 2019. The adoption of this statement did not have a material impact on the 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 reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact GASB No. 84 will have on its consolidated basic financial statements.

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

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* ("GASB No. 88"). GASB No. 88 requires additional information related to debt to be disclosed in notes to the financial statements. GASB No. 88 is effective for reporting periods beginning after June 15, 2018. The Company adopted GASB No. 88 in the consolidated basic financial statements for the year ended June 30, 2019. The adoption of this statement did not have a material impact on the consolidated basic financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB No. 89"). Upon adoption of GASB No. 89, interest cost incurred before the end of a construction period will be recognized as an expense in the period in which the cost is incurred. GASB No. 89 is effective for reporting periods beginning after December 15, 2019. As permitted by the standard, the Company early adopted GASB No. 89 in the consolidated basic financial statements for the year ended June 30, 2019. The adoption of this statement did not have a material impact on the consolidated basic financial statements.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2019 and 2018

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations* ("GASB No. 91"). GASB No. 91 clarifies the existing definition of a conduit debt obligation, establishes that a conduit debt obligation is not a liability of the issuer, and establishes standards for accounting and financial reporting of additional and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations. GASB No. 91 is effective for reporting periods beginning after December 15, 2020. The Company is currently evaluating the impact GASB No. 91 will have on its consolidated basic financial statements.

3. **Un-sponsored Community Benefit**

Community benefit is a planned, managed, organized, and measured approach to a health care organization's participation in meeting identified community health needs. It 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. The Company 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 ("VHA").

The Company has policies 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 assets criteria. Because the Company does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. The Company maintains records to identify and monitor the level of financial assistance it provides. Charges forgone for services provided under the Company's financial assistance policy for the years ended June 30, 2019 and 2018 were approximately \$434,808,000 and \$440,539,000, respectively.

In addition to direct financial assistance, the Company 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 the Company 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 professional education includes education provided in clinical settings such as internships and programs for physicians, nurses, and allied health professionals. Also included are scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2019 and 2018

The Company's valuation of unsponsored community benefits at estimated cost for the years ended June 30, 2019 and 2018 is as follows:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|------------------|------------------|
| Financial assistance provided | \$ 87,525 | \$ 89,822 |
| Government support applied to charity care | <u>(26,276)</u> | <u>(26,276)</u> |
| Net unreimbursed financial assistance | <u>61,249</u> | <u>63,546</u> |
| Benefits for the broader community | | |
| Community health services | 110 | 343 |
| Health professions education | 23,871 | 28,522 |
| Donations | <u>26</u> | <u>28</u> |
| Total quantifiable benefits for the broader community | <u>24,007</u> | <u>28,893</u> |
| Total community benefits | <u>\$ 85,256</u> | <u>\$ 92,439</u> |

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

The Company also plays a leadership role in the communities it serves by providing additional community benefits that have not been quantified. This role includes serving as a state designated Level I trauma center and maintaining air ambulance services to help meet the emergency healthcare needs in Jacksonville.

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

4. Cash, Cash Equivalents, Investments and Assets Whose Use is Restricted

Cash, cash equivalents, investments and assets whose use is restricted are reported in the accompanying consolidated basic statements of net position as follows at June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|--|-------------------|-------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 102,597 | \$ 103,649 |
| Short-term investments | 1,429 | 443 |
| Assets whose use is restricted, current portion | <u>3,415</u> | <u>2,768</u> |
| | 107,441 | 106,860 |
| Long-term assets | | |
| Assets whose use is restricted, less current portion | <u>26,045</u> | <u>26,005</u> |
| | <u>\$ 133,486</u> | <u>\$ 132,865</u> |

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2019 and 2018

The composition of cash, cash equivalents, investments and assets whose use is restricted at June 30, 2019 and 2018 is as follows:

(in thousands of dollars)

| 2019 | Market Value | Investment Maturities | | |
|---|-------------------|-----------------------|------------------|-------------------|
| | | Less Than 1 Year | 1–3 Years | N/A |
| Certificates of deposit | \$ 6,545 | \$ 6,545 | \$ - | \$ - |
| Florida Treasury Investment Pool ("SPIA") | 20,860 | - | 20,860 | - |
| Money market funds | 2,884 | - | - | 2,884 |
| Bank deposits | 103,197 | - | - | 103,197 |
| | <u>\$ 133,486</u> | <u>\$ 6,545</u> | <u>\$ 20,860</u> | <u>\$ 106,081</u> |

(in thousands of dollars)

| 2018 | Market Value | Investment Maturities | | |
|---|-------------------|-----------------------|------------------|-------------------|
| | | Less Than 1 Year | 1–3 Years | N/A |
| Certificates of deposit | \$ 6,505 | \$ 6,505 | \$ - | \$ - |
| Florida Treasury Investment Pool ("SPIA") | 19,942 | - | 19,942 | - |
| Money market funds | 5,481 | - | - | 5,481 |
| Bank deposits | 100,937 | - | - | 100,937 |
| | <u>\$ 132,865</u> | <u>\$ 6,505</u> | <u>\$ 19,942</u> | <u>\$ 106,418</u> |

The Florida State Treasury operates a special investment program for public entities and is called the Special Purpose Investment Account ("SPIA"). The Florida Treasury Investment Pool 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 less than \$20 million 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.

Assets whose use is restricted include amounts internally designated by the Board of Directors, amounts held by bond trustees, and swap collateral, which is comprised of the following at June 30, 2019 and 2018:

(in thousands of dollars)

| | 2019 | 2018 |
|---|------------------|------------------|
| Internally designated by the Board of Directors for clinical support, education, research and other health programs | \$ 19,500 | \$ 19,500 |
| Debt service reserve and project funds | 6,545 | 6,505 |
| Held by bank as collateral for interest rate swaps | 3,415 | 2,768 |
| | <u>29,460</u> | <u>28,773</u> |
| Less: Current portion | <u>(3,415)</u> | <u>(2,768)</u> |
| Long-term portion | <u>\$ 26,045</u> | <u>\$ 26,005</u> |

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2019 and 2018

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. The Company invests either by participating in SPIA or through an investment agent. The agreement with the investment agent has specific objectives and guidelines, which includes issuer credit quality, a list of specific allowable investments and credit ratings.

The credit risk profile of the Company's investments and assets whose use is restricted as of June 30, 2019 and 2018 is as follows:

(in thousands of dollars)

| | Fair Value | Ratings | | |
|---|------------------|-----------------|-----------------|------------------|
| | | AAA | A-1+/P-1 | AA-f |
| 2019 | | | | |
| Certificates of deposit | \$ 6,545 | \$ - | \$ 6,545 | \$ - |
| Florida Treasury Investment Pool ("SPIA") | 20,860 | - | - | 20,860 |
| Money market funds | 2,884 | 2,884 | - | - |
| | <u>\$ 30,289</u> | <u>\$ 2,884</u> | <u>\$ 6,545</u> | <u>\$ 20,860</u> |

(in thousands of dollars)

| | Fair Value | Ratings | | |
|---|------------------|-----------------|-----------------|------------------|
| | | AAA | A-1+/P-1 | A+f |
| 2018 | | | | |
| Certificates of deposit | \$ 6,505 | \$ - | \$ 6,505 | \$ - |
| Florida Treasury Investment Pool ("SPIA") | 19,942 | - | - | 19,942 |
| Money market funds | 5,481 | 5,481 | - | - |
| | <u>\$ 31,928</u> | <u>\$ 5,481</u> | <u>\$ 6,505</u> | <u>\$ 19,942</u> |

Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of the Company's 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, 2019 and 2018, the Company did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk

As of June 30, 2019 and 2018, the Company's investments were not exposed to custodial credit risk since the full amount of investments were insured, collateralized, or registered in the Company's name.

Interest Rate Risk

The Company's investment agent guidelines limit maximum effective maturities to one year as a means of managing its exposure to fair value losses arising from increasing interest rates. While SPIA does hold some longer term maturities, participants have the ability to invest and obtain funds in the same day, subject to certain limitations.

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Investment gain, net for fiscal years 2019 and 2018 is as follows:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|-----------------|-----------------|
| Investment income in provider service network | \$ - | \$ 200 |
| Dividends and interest income | 1,484 | 997 |
| Net increase in the fair value of investments | <u>539</u> | <u>29</u> |
| Investment gain, net | <u>\$ 2,023</u> | <u>\$ 1,226</u> |

5. Fair Value

The Company 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 investments.

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc.).

Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

The recurring fair value measurement of investments at June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 Fair Value | 2018 Fair Value |
|--|--------------------------------|--------------------------------|
| Investments measured by fair value level | \$ - | \$ - |
| Investments measured at the net asset value ("NAV") | | |
| Florida Treasury Investment Pool ("SPIA") | <u>20,860</u> | <u>19,942</u> |
| Total investments measured at the NAV | 20,860 | 19,942 |
| Other | | |
| Money markets funds and certificates of deposit | 9,429 | 11,986 |
| Cash collateral on deposit with swap counterparty | <u>3,415</u> | <u>2,768</u> |
| | <u>\$ 33,704</u> | <u>\$ 34,696</u> |

The SPIA funds are combined with State Funds and are invested as part of the Florida Treasury Investment Pool and are measured at the NAV per share or its equivalent.

The Company's swaps are classified in Level 2 of the fair value hierarchy. The fair value of the nonhedged interest rate swap is estimated using the present value of expected discounted future cash flows based on the maturity date. The fair value of the hedged interest rate and total return swaps are estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that 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 rate bond due

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on the date of each future net settlement payment on the swaps. Fair value of the interest rate swaps are included in Note 8.

The Company's 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 amount at June 30, 2019 and 2018 is approximately \$241,869,000 and \$242,808,000, respectively. The estimated fair value at June 30, 2019 and 2018 is approximately \$253,741,000 and \$253,194,000, respectively.

6. Capital Assets

A summary of changes in capital assets during fiscal years 2019 and 2018 is as follows:

| <i>(in thousands of dollars)</i> | Balance at June 30, 2018 | Additions | Deletions | Transfers | Balance at June 30, 2019 |
|--------------------------------------|---|--------------------|------------------|------------------|---|
| Land | \$ 23,918 | \$ - | \$ - | \$ - | \$ 23,918 |
| Buildings and leasehold improvements | 378,213 | - | - | 12,725 | 390,938 |
| Equipment | <u>275,713</u> | - | <u>(22)</u> | <u>10,627</u> | <u>286,318</u> |
| Totals at historical cost | 677,844 | - | (22) | 23,352 | 701,174 |
| Less accumulated depreciation for: | | | | | |
| Buildings and leasehold improvements | (224,823) | (13,565) | - | - | (238,388) |
| Equipment | <u>(196,154)</u> | <u>(20,734)</u> | <u>17</u> | - | <u>(216,871)</u> |
| | 256,867 | (34,299) | (5) | 23,352 | 245,915 |
| Construction-in-progress | <u>8,850</u> | <u>18,571</u> | <u>(831)</u> | <u>(23,352)</u> | <u>3,238</u> |
| Capital assets, net | <u>\$ 265,717</u> | <u>\$ (15,728)</u> | <u>\$ (836)</u> | <u>\$ -</u> | <u>\$ 249,153</u> |

| <i>(in thousands of dollars)</i> | Balance at June 30, 2017 | Additions | Deletions | Transfers | Balance at June 30, 2018 |
|--------------------------------------|---|------------------|-------------------|------------------|---|
| Land | \$ 23,918 | \$ - | \$ - | \$ - | \$ 23,918 |
| Buildings and leasehold improvements | 360,114 | - | (11) | 18,110 | 378,213 |
| Equipment | <u>241,153</u> | - | <u>(1,179)</u> | <u>35,739</u> | <u>275,713</u> |
| Totals at historical cost | 625,185 | - | (1,190) | 53,849 | 677,844 |
| Less accumulated depreciation for: | | | | | |
| Buildings and leasehold improvements | (210,232) | (14,592) | 1 | - | (224,823) |
| Equipment | <u>(175,492)</u> | <u>(21,491)</u> | <u>829</u> | - | <u>(196,154)</u> |
| | 239,461 | (36,083) | (360) | 53,849 | 256,867 |
| Construction-in-progress | <u>26,220</u> | <u>39,320</u> | <u>(2,841)</u> | <u>(53,849)</u> | <u>8,850</u> |
| Capital assets, net | <u>\$ 265,681</u> | <u>\$ 3,237</u> | <u>\$ (3,201)</u> | <u>\$ -</u> | <u>\$ 265,717</u> |

Amortization expense on equipment held under capital lease which is included within depreciation and amortization expense in the consolidated basic statements of revenues, expenses, and changes in net position was approximately \$1,763,000 and \$2,112,000 for the years ended June 30, 2019 and 2018, respectively.

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During 2018, the Company sold outpatient dialysis program assets for \$8,300,000 resulting in a gain on sale of capital assets of approximately \$8,036,000, which is included in the consolidated basic statement of revenues, expenses, and changes in net position for the year ended June 30, 2018.

7. Short-Term and Long-Term Debt

Short-term and Long-term debt is comprised of the following at June 30, 2019 and 2018:

| <i>(in thousands of dollars)</i> | 2019 | 2018 |
|---|-------------------|-------------------|
| Health Facilities Tax Exempt Revenue Bonds: | | |
| General Obligation Bonds: | | |
| Series 2013A | \$ 58,725 | \$ 60,655 |
| Series 2013B | 43,635 | 47,100 |
| | <u>102,360</u> | <u>107,755</u> |
| Direct Placement Bonds: | | |
| Series 2015, UF Health Project | 12,823 | 14,732 |
| Series 2015 | 85,000 | 85,000 |
| | <u>97,823</u> | <u>99,732</u> |
| | <u>200,183</u> | <u>207,487</u> |
| Taxable Notes: | | |
| Direct Borrowing Notes: | | |
| 2011 Shands Note Payable | 14,386 | 15,321 |
| UFJPI Note Payable | 7,300 | - |
| | <u>21,686</u> | <u>15,321</u> |
| Series 2015A, Revolving Line of Credit | <u>20,000</u> | <u>20,000</u> |
| | <u>241,869</u> | <u>242,808</u> |
| Net unamortized bond premium | 1,160 | 1,230 |
| Total short-term and long-term debt | 243,029 | 244,038 |
| Less: Short-term and long-term, current portion | <u>(15,784)</u> | <u>(8,205)</u> |
| Long-term portion | <u>\$ 227,245</u> | <u>\$ 235,833</u> |

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Changes in the Company's short-term and long-term debt, excluding any unamortized discounts or premiums were as follows:

| <i>(in thousands of dollars)</i> | Balance at June 30, 2018 | Additions | Reductions | Balance at June 30, 2019 | Amounts Due Within One Year |
|---|--------------------------------|-----------------|-------------------|--------------------------------|-----------------------------------|
| Health Facilities Tax Exempt Revenue Bonds: | | | | | |
| General Obligation Bonds: | | | | | |
| Series 2013A | \$ 60,655 | \$ - | \$ (1,930) | \$ 58,725 | \$ 2,025 |
| Series 2013B | 47,100 | - | (3,465) | 43,635 | 3,575 |
| | <u>107,755</u> | <u>-</u> | <u>(5,395)</u> | <u>102,360</u> | <u>5,600</u> |
| Direct Placement Bonds: | | | | | |
| Series 2015, UF Health Project | 14,732 | - | (1,909) | 12,823 | 1,961 |
| Series 2015 | 85,000 | - | - | 85,000 | - |
| | <u>99,732</u> | <u>-</u> | <u>(1,909)</u> | <u>97,823</u> | <u>1,961</u> |
| | <u>207,487</u> | <u>-</u> | <u>(7,304)</u> | <u>200,183</u> | <u>7,561</u> |
| Taxable Notes: | | | | | |
| Direct Borrowing Notes: | | | | | |
| 2011 Shands Note Payable | 15,321 | - | (935) | 14,386 | 979 |
| UFJPI Note Payable | - | 7,300 | - | 7,300 | 7,300 |
| | <u>15,321</u> | <u>7,300</u> | <u>(935)</u> | <u>21,686</u> | <u>8,279</u> |
| Series 2015A, Revolving Line of Credit | 20,000 | - | - | 20,000 | - |
| Total short-term and long-term debt | <u>\$ 242,808</u> | <u>\$ 7,300</u> | <u>\$ (8,239)</u> | <u>\$ 241,869</u> | <u>\$ 15,840</u> |

| <i>(in thousands of dollars)</i> | Balance at June 30, 2017 | Additions | Reductions | Balance at June 30, 2018 | Amounts Due Within One Year |
|---|--------------------------------|-------------|-------------------|--------------------------------|-----------------------------------|
| Health Facilities Tax Exempt Revenue Bonds: | | | | | |
| General Obligation Bonds: | | | | | |
| Series 2013A | \$ 62,490 | \$ - | \$ (1,835) | \$ 60,655 | \$ 1,930 |
| Series 2013B | 50,390 | - | (3,290) | 47,100 | 3,465 |
| | <u>112,880</u> | <u>-</u> | <u>(5,125)</u> | <u>107,755</u> | <u>5,395</u> |
| Direct Placement Bonds: | | | | | |
| Series 2015, UF Health Project | 16,589 | - | (1,857) | 14,732 | 1,909 |
| Series 2015 | 85,000 | - | - | 85,000 | - |
| | <u>101,589</u> | <u>-</u> | <u>(1,857)</u> | <u>99,732</u> | <u>1,909</u> |
| | <u>214,469</u> | <u>-</u> | <u>(6,982)</u> | <u>207,487</u> | <u>7,304</u> |
| Taxable Notes: | | | | | |
| Direct Borrowing Note: | | | | | |
| 2011 Shands Note Payable | 16,215 | - | (894) | 15,321 | 936 |
| Series 2015A, Revolving Line of Credit | 20,000 | - | - | 20,000 | - |
| Total short-term and long-term debt | <u>\$ 250,684</u> | <u>\$ -</u> | <u>\$ (7,876)</u> | <u>\$ 242,808</u> | <u>\$ 8,240</u> |

The current portion of net unamortized bond discount was approximately \$56,000 and \$35,000 as of June 30, 2019 and 2018, respectively.

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Maturities of short-term and 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, | General Obligation Bonds | | Direct Placement/Borrowing Bonds & Notes | | Revolving Line Of Credit | | Total Debt Service | |
|-------------------------|-----------------------------|------------------|---|------------------|--------------------------|-----------------|--------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2020 | \$ 5,600 | \$ 4,238 | \$ 10,240 | \$ 5,448 | \$ - | \$ 779 | \$ 15,840 |
| 2021 | 3,775 | 4,102 | 3,040 | 5,348 | 20,000 | 260 | 26,815 | 9,710 |
| 2022 | 3,950 | 4,021 | 3,144 | 5,245 | - | - | 7,094 | 9,266 |
| 2023 | 4,125 | 3,936 | 3,251 | 5,139 | - | - | 7,376 | 9,075 |
| 2024 | 6,455 | 3,804 | 3,364 | 5,029 | - | - | 9,819 | 8,833 |
| 2025-2029 | 38,455 | 15,534 | 19,038 | 22,977 | - | - | 57,493 | 38,511 |
| 2030-2034 | 40,000 | 8,600 | 17,907 | 18,255 | - | - | 57,907 | 26,855 |
| 2035-2039 | - | - | 20,125 | 13,620 | - | - | 20,125 | 13,620 |
| 2040-2044 | - | - | 26,010 | 7,750 | - | - | 26,010 | 7,750 |
| 2045-2048 | - | - | 13,390 | 703 | - | - | 13,390 | 703 |
| | <u>\$ 102,360</u> | <u>\$ 44,235</u> | <u>\$ 119,509</u> | <u>\$ 89,514</u> | <u>\$ 20,000</u> | <u>\$ 1,039</u> | <u>\$ 241,869</u> | <u>\$ 134,788</u> |

Cash paid for interest was approximately \$9,693,000 and \$9,362,000 for the years ended June 30, 2019 and 2018, respectively. No amounts were capitalized for the years ended June 30, 2019 and 2018.

The Company entered into a Master Trust Indenture (“MTI”) with U.S. Bank, National Association (“U.S. Bank”) which serves as the primary financing document for the Company. All of the Company’s debt is covered by the MTI with the exception of notes payable to Shands and UFJPI. Under the terms of the MTI, the Company has pledged a security interest in its gross revenues.

See Note 12 for further description of the 2011 Shands Note Payable and the University of Florida Jacksonville Physicians, Inc. (“UFJPI”) Note Payable.

Series 2015 Healthcare Facilities Revenue Bonds

On December 10, 2015, the Company issued \$85 million of tax exempt Healthcare Facilities Revenue Bonds (UF Health – Jacksonville Project), Series 2015, which matures on February 1, 2045. The proceeds of this debt will be used for financing, refinancing or reimbursement for costs of certain capital improvements including the cost of the construction and equipping of a new 92-bed patient tower on UF Health Jacksonville’s North Campus; other miscellaneous improvements and paying costs associated with the issuance of the bonds.

Series 2015 Healthcare Facilities Revenue Bonds

On June 29, 2015, the Company closed on the \$20 million tax exempt issuance of City of Jacksonville, Florida Healthcare Facilities Revenue Bonds (UF Health – Jacksonville Project), Series 2015, which matures on June 30, 2025. The purpose of Series 2015 is for financing, refinancing and reimbursing the costs of capital improvements and for paying for costs of issuance.

Series 2015A Revolving Line of Credit

On March 1, 2015, the Company entered into an interest only \$20 million Revolving Line of Credit, Series 2015A, and was advanced the entire amount, which was initially due and payable in full by March 2020. The Company amended the Revolving Line of Credit on June 28, 2019 to extend the maturity to October 31, 2020. The proceeds of the Revolving Line of Credit, Series 2015A were used primarily for general corporate expenditures.

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Series 2013A and 2013B Healthcare Facilities Revenue Bonds

On November 21, 2013, Florida Development Finance Corporation (“FDFC”) issued Healthcare Facilities Revenue Bonds (“Series 2013 A and B Bonds”) on behalf of SJMC. Series 2013A Bonds, for approximately \$64.2 million, is comprised of serial and term bonds. Series 2013B Bonds, for approximately \$59.4 million, were issued initially in the R-FLOATs mode, with an R-FLOATs weekly period. The proceeds of this issuance were used to finance various capital improvement projects, pay for cost of issuance, provide a debt service reserve fund and refund the \$100 million of Series 2013 SJMC Taxable Notes. Although total cash flows related to the new debt service, excluding the increase for capital improvements, debt reserve funding and issues cost, will increase by approximately \$48.4 million, the Company will have an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$1.7 million, in the event the Series 2013 A and B Bonds are held to maturity.

Debt Covenants

The Company’s Obligated Group is subject to certain restrictive covenants. The Revolving Line of Credit and direct placement bond Series 2015, UF Health Project require certain minimum bond ratings and certain financial ratio covenants in order to avoid an event of default. If the Company fails to pay any principal amounts when due or if an event of default occurs, the lender can accelerate payment of the entire amount of principal due immediately. At June 30, 2019, the Company’s most restrictive covenants require cash on hand of at least 50 days, a minimum debt service coverage ratio of 1.0, and a maximum funded debt to total assets ratio of not more than 0.70. In February 2019, the Company obtained an amendment to the cash on hand covenant with respect to the Series 2015A Revolving Line of Credit and the Series 2015, UF Health Project, Healthcare Facilities Revenue Bonds, which resulted in reduction from 60 days to 50 days at June 30, 2019. The cash on hand covenant reverts to 60 days on June 30, 2020 and going forward. The Company was in compliance with covenants as of June 30, 2019 and 2018.

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8. Interest Rate Swaps

On June 30, 2019 and 2018, the Company had the following derivative instruments outstanding, which are recorded in other assets (liabilities) in the accompanying consolidated basic statements of net position:

| <i>(in thousands of dollars)</i> | | Company | Counterparty | | | | 2019 | 2018 |
|-------------------------------------|--------------------------------|------------------------|------------------------|-----------------------|----------------------|--|-------------------|-------------------|
| Type | Objective | Notional Amount | Notional Amount | Effective Date | Maturity Date | Terms | Fair Value | Fair Value |
| Fixed rate payer interest rate swap | Hedge changes in interest rate | \$ 6,575 | \$ 6,575 | 1/30/2004 | 2/1/2021 | Receive 67% of USD-LIBOR-BBA, Pay Fixed 3.337% | \$ (152) | \$ (257) |
| Fixed rate payer interest rate swap | Hedge changes in interest rate | 12,823 | 12,823 | 6/29/2015 | 6/30/2025 | Receive 65% of USD-LIBOR-BBA + 120 basis point spread, Pay Fixed 2.7350% | (176) | 109 |
| Total return interest rate swap | Hedge costs of borrowing | 87,268 | 85,000 | 12/10/2015 | 12/10/2020 | Receive Fixed 5.25%, Pay 70% of USD-LIBOR-BBA + 195 basis point spread | 3,102 | 2,753 |
| | | | | | | | \$ 2,774 | \$ 2,605 |

The Company and Counterparty Notional Amounts represent the notional amounts as of June 30, 2019 and 2018 unless otherwise noted. The Company and Counterparty Notional Amount for the 2021 maturity date fixed rate payer swap was \$9,675,000 as of June 30, 2018. The Company and Counterparty Notional Amount for the 2025 maturity date fixed rate payer swap was \$14,732,000 as of June 30, 2018.

The fair value of the nonhedged \$6,575,000 interest rate swap is estimated using the present value of expected discounted future cash flows based on the maturity date and is recorded in other nonoperating losses in the accompanying consolidated basic statements of revenues, expenses, and changes in net position. The fair value of the hedged \$12,823,000 and \$85,000,000 interest rate swaps are recorded in deferred inflows of resources in the accompanying consolidated basic statements of net position and is estimated using the zero-coupon method.

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Credit Risk

The Company has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2019 and 2018, the credit ratings, from various credit rating agencies, for Merrill Lynch Capital Services, Inc., the swap counterparty for the \$6,575,000 and \$85,000,000 swaps, are A+/A2/A- and A+/A3/A- at June 30, 2019 and 2018, respectively. The credit ratings, from various credit rating agencies, for the \$12,823,000 Compass Bank counterparty's swap are A/A3/A- and A-/A3/A- at June 30, 2019 and 2018, respectively.

Interest Rate Risk

The Company is not exposed to interest rate risk on its fixed rate payer interest rate swaps which hedge the changes in interest rates on the variable rate positions. The Company receives a fixed rate and pays a variable rate for the Series 2015 total return swap.

Basis Risk

The Company is exposed to basis risk on its fixed rate payer swap agreements because the variable rate payments received by the Company on the derivative instruments are based on a rate or index other than the interest rates the Company pays on its variable rate position.

Termination Risk

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

Commitments

The Company's fixed rate 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 the Company's unenhanced credit rating as determined by Fitch Ratings. The Company's total return swap requires collateral to be posted equal to the bond amount multiplied by the difference between the fair market value price and the base price of the bond. Collateral balances were approximately \$3,415,000 and \$2,768,000 at June 30, 2019 and 2018, respectively.

9. Employee Benefit Plans

Defined Contribution Plan

SJMC has a defined contribution plan which allows participants to defer up to 6% of their salary, pursuant to Section 401(k) of the Internal Revenue Code and all limitations contained therein. Effective January 1, 2016, SJMC matches up to 6% of the salary of all eligible employees. Contributions to this plan by SJMC were approximately \$10,421,000 and \$9,167,000 for the years ended June 30, 2019 and 2018, respectively.

Defined Benefit Pension Plan **Plan Description**

The Company participates in the Plan, which is an agent employer defined benefit pension plan that covers eligible Company employees 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.

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Benefits Provided

On July 1, 2011, participants who were previously receiving benefits under the traditional pension formula began receiving cash balance accruals. Participants continued to accrue cash balance benefits through June 30, 2013, when the Plan was amended to cease accrual of cash balance benefits. This amendment will not cease the accrual of service for vesting or eligibility for early or normal retirement.

Benefit terms provide for annual cost-of-living adjustments to retired participants and beneficiaries of participants. 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 or decrease is limited to 3% per year, and may not decrease below the amount of benefit payable at retirement (for retired participants) or at the death of the participant (for beneficiaries of participants).

Employees Covered by Benefit Terms

At June 30, 2018, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2017

| | |
|-------------------|-------|
| Active | 5 |
| Retired | 511 |
| Terminated vested | 103 |
| | <hr/> |
| | 619 |
| | <hr/> |

Contributions

The Plan'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 Company may contribute an amount above the required contribution. The Company's contributions of approximately \$1,333,000 and \$2,017,000 for the years ended June 30, 2019 and 2018, respectively, meet the minimum funding requirements of ERISA.

Net Pension Liability

The Company's net pension liability as of June 30, 2019 was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability as of June 30, 2018 was determined based on the results of an actuarial valuation as of July 1, 2017 projected forward to June 30, 2018 using standard actuarial techniques.

The total pension liability in the July 1, 2017 actuarial valuation was determined based on census data as of July 1, 2017 and the following actuarial assumptions:

Investment Rate of Return: 6.25%, net of pension plan investment expense, including inflation.

Inflation: 1.63% for the period July 1, 2017 through June 30, 2018, 1.88% for the period July 1, 2018 through June 30, 2019, and 2.0% per year thereafter.

Salary increase: Not applicable

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Retirement Growth Account Interest Crediting Rate: 3.17% for the period July 1, 2017 through June 30, 2018, 4.24% for the period July 1, 2018 through June 30, 2019, and 4.10% per year thereafter. The 3.17% and 4.24% rates represent actual interest rate credited in each respective period.

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

The actuarial assumptions used in the July 1, 2017 valuation related to retirement and termination rates were based on the results of an actual experience study conducted in 2015 for the period July 1, 2010 through March 31, 2015.

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

| Asset Class | Target Allocation | Real Rate of Return |
|--------------------------|--------------------------|----------------------------|
| Global equity | 51.4 % | 4.50 % |
| Long credit fixed income | 37.1 | 2.10 % |
| High yield fixed income | 8.0 | 3.00 % |
| Private equity | 3.5 | 6.80 % |
| Total | <u>100.0 %</u> | |

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
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June 30, 2019 and 2018

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

(in thousands of dollars)

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|---------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Asset (a)-(b) |
| Balances at June 30, 2018 | \$ 66,861 | \$ 67,088 | \$ (227) |
| Changes for the year: | | | |
| Interest | 4,293 | - | 4,293 |
| Difference between expected and actual experience | (1,381) | - | (1,381) |
| Employer contributions | - | 2,016 | (2,016) |
| Net investment income | - | 4,530 | (4,530) |
| Benefit payments | (6,916) | (6,916) | - |
| Administrative expense | - | (294) | 294 |
| Other changes | 3,289 | - | 3,289 |
| Net changes | (715) | (664) | (51) |
| Balances at June 30, 2019 | \$ 66,146 | \$ 66,424 | \$ (278) |

The recurring fair value measurement of the Plan fiduciary net position at June 30, 2019 is as follows:

(in thousands of dollars)

| | Fair Value | Quoted Prices In Active Markets for Identical Instruments (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|------------|---|---|--|
| | | | | |
| Investments by fair value level: | | | | |
| Interest bearing cash | \$ 38 | \$ 38 | \$ - | \$ - |
| Fixed income funds | 30,017 | 24,324 | 5,693 | - |
| Equity funds | 21,074 | - | 21,074 | - |
| Common stock | 13,245 | 13,245 | - | - |
| Total investments by fair value level | 64,374 | \$ 37,607 | \$ 26,767 | \$ - |
| Investments measured at the NAV: | | | | |
| Private equity funds | 1,788 | | | |
| Total investments measured at the NAV | 1,788 | | | |
| Total investments measured at fair value | 66,162 | | | |
| Other | | | | |
| Other plan net assets, net | 262 | | | |
| | \$ 66,424 | | | |

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June 30, 2019 and 2018

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

(in thousands of dollars)

| | Fair Value | Quoted Prices In Active Markets for Identical Instruments (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|------------|---|---|--|
| Investments by fair value level: | | | | |
| Interest bearing cash | \$ 9 | \$ 9 | \$ - | \$ - |
| Fixed income funds | 26,237 | 12,173 | 14,064 | - |
| Equity funds | 21,333 | - | 21,333 | - |
| Common stock | 16,997 | 16,997 | - | - |
| Total investments by fair value level | 64,576 | \$ 29,179 | \$ 35,397 | \$ - |
| Investments measured at the NAV: | | | | |
| Private equity funds | 2,279 | | | |
| Total investments measured at the NAV | 2,279 | | | |
| Total investments measured at fair value | 66,855 | | | |
| Other | | | | |
| Other plan net assets, net | 233 | | | |
| | \$ 67,088 | | | |

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 (Asset) Liability to Changes in the Discount Rate

The following presents the Company's net pension (asset) liability calculated using the discount rate of 6.25%, as well as the net pension (asset) liability using a discount rate that is 1% lower (5.25%) or 1% higher (7.25%):

(in thousands of dollars)

| | 1% Decrease (5.25%) | Current Discount Rate (6.25%) | 1% Increase (7.25%) |
|-------------------------------|------------------------|-------------------------------------|------------------------|
| Net pension liability (asset) | \$ 5,103 | \$ (278) | \$ (5,039) |

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2019 and 2018

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

The Company recognized pension expense of approximately \$51,000 and \$116,000 for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019, the Company 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 Resource | Deferred Inflows of Resource |
|---|--|---|
| Differences between expected and actual experience | \$ 348 | \$ 1,153 |
| Changes of assumptions | 2,347 | 1,500 |
| Net differences between projected and actual earnings on pension plan investments | - | 678 |
| Contributions made during the year ended June 30, 2019 not yet recognized in net fiduciary position | 1,333 | - |
| Total | <u>\$ 4,028</u> | <u>\$ 3,331</u> |

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)

Years Ending

| | |
|------------|----------|
| 2020 | \$ (139) |
| 2021 | 183 |
| 2022 | (650) |
| 2023 | (30) |
| Thereafter | - |

Payable to the Defined Benefit Pension Plan

As of June 30, 2019 and 2018, there are no payables to the Plan.

10. Other Postemployment Benefits

SJMC sponsors the Shands Jacksonville Health Plan (the "Health Plan"), a single employer plan, which provides medical, dental or vision benefits for eligible retired employees and certain dependents.

Eligibility

Eligible retirees for medical benefits include those not yet Medicare eligible who are enrolled in the medical plan at the time of termination from the Company and are either at least 62 years of age with at least 10 years of service on the date of termination, or, they have worked 30 years for the Company and their date of hire was before January 1, 1976.

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Eligible retirees for dental and vision benefits include those who are enrolled in a dental or vision plan at the time of termination from the Company and are either are at least 62 years of age with at least 10 years of service on the date of termination, or, they have 35 years of service on the date of termination.

Eligible retirees can cover dependents for either medical, vision or dental benefits if the dependents are any of the following:

The eligible retiree's lawful spouse

The eligible retiree's domestic partner

The eligible retiree's children who meet these criteria:

- natural child, stepchild, adopted child (including a child legally placed with the retiree for adoption), foster child, domestic partner's child, or child for whom the retiree has been court appointed as the legal guardian or legal custodian, and
- under age 26

The eligible retiree's grandchild. This is the child of an eligible retiree's eligible child, to the maximum age of 18 months, and only if the grandchild's parent is also covered on the eligible retiree's medical plan.

Contributions

The Company's annual postemployment benefits expense is actuarially determined in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"). Projections of benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Costs of medical and dental benefits are shared between the Company and the retiree. Vision benefit costs are the responsibility of the retirees.

Retiree medical contribution increases are calculated so that the expected Company's cost per capita is capped at \$8,845 and increasing 2% annually beginning in 2017 to \$9,022. All future contribution increases for medical benefits beyond the cap are passed on to the retiree and not reflected in the liability since it has no impact on the Company's liability, with the exception of 2 grandfathered retirees eligible for post-65 coverage who have no contribution increases.

Retiree dental contribution increases are based on the dental annual rates of increases healthcare cost trends presented below.

Other Postemployment Benefits Liability

The Company's reported liability for postemployment benefits obligations is calculated using the entry age normal level percent of pay method. As allowable under the terms of GASB No. 75, the Company has elected to measure the total postemployment liability one year prior to the fiscal year end reporting date, with a measurement date of July 1, 2018. There are no significant changes known which would impact the total postemployment liability between the measurement date and the reporting date, other than typical plan experience.

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Notes to Consolidated Basic Financial Statements
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For purposes of the July 1, 2018 measurement date, the number of plan participants consisted of the following:

| | Medical | Dental |
|-------------------------------------|----------------|---------------|
| Participant data as of July 1, 2018 | | |
| Retirees | 24 | 203 |
| Spouses | <u>2</u> | <u>50</u> |
| Surviving Spouses | <u>26</u> | <u>253</u> |

As of July 1, 2018, there were 259 fully eligible active employees and 4,421 active but not fully eligible employees.

Changes in the total reported liability for postemployment benefits obligations for the years ended June 30, 2019 and 2018 are summarized as follows:

(in thousands of dollars)

| | 2019 | 2018 |
|---|-----------------|-----------------|
| Balance, beginning of year | <u>\$ 6,825</u> | <u>\$ 4,601</u> |
| Changes for the year | | |
| Service cost | 253 | 163 |
| Interest | 238 | 128 |
| Change in benefit terms | - | 403 |
| Difference between expected and actual experience | (52) | 235 |
| Changes of assumptions | (369) | 1,552 |
| Benefit payments | <u>(424)</u> | <u>(257)</u> |
| Net changes | <u>(354)</u> | <u>2,224</u> |
| Balances, end of year | <u>\$ 6,471</u> | <u>\$ 6,825</u> |

The Company does not maintain a separate legal trust to house assets used to fund postemployment benefits, has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis.

Significant actuarial assumptions used at each respective measurement date are as follows:

Discount rate on 20-year General Obligation Municipal Bonds
3.87% per annum for the July 1, 2018 measurement date
3.60% per annum for the July 1, 2017 measurement date

Medical healthcare cost trend rates
Initial/ultimate 6.2%/4.5% increases for the July 1, 2018 measurement date
Initial/ultimate 6.4%/4.5% increases for the July 1, 2017 measurement date

Dental healthcare cost trend rates of initial/ultimate 4.9%/4.5% increases for both the July 1, 2018 and July 1, 2017 measurement dates.

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Notes to Consolidated Basic Financial Statements
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Mortality was based on the RP-2014 Mortality Annuitant/Non-Annuitant no collar adjusted to remove post-2007 mortality improvements. MMP-2016 projection scale applied on a generational basis.

Sensitivity of the net Other Postemployment Benefits Liability to the Changes in the Healthcare Cost Trend Rates

The following shows the total other postemployment liability of the plan using the current healthcare cost trend rate and the effect on the liability of using healthcare cost trend rates that are 1 percentage point higher and 1 percentage point lower.

(in thousands of dollars)

| | 1% Decrease | Current Trend | 1% Increase |
|--|-------------|------------------|-------------|
| Net other postemployment benefit liability | \$ 5,909 | \$ 6,471 | \$ 7,130 |

Sensitivity of the net Other Postemployment Benefits Liability to the Changes in the Discount Rate

The following shows the total other postemployment liability of the plan calculated using the discount rate of 3.87% and the effect on the liability of using a discount rate that is 1 percentage point lower (2.87%) and 1 percentage point higher (4.87%).

(in thousands of dollars)

| | 1% Decrease (2.87%) | Current Discount Rate (3.87%) | 1% Increase (4.87%) |
|--|------------------------|-------------------------------------|------------------------|
| Net other postemployment benefit liability | \$ 7,175 | \$ 6,471 | \$ 5,884 |

The components of postemployment benefits expense for the year ended June 30, 2019 are summarized as follows:

(in thousands of dollars)

| | |
|--|---------------|
| Service cost | \$ 253 |
| Interest | 238 |
| Change in benefit terms | - |
| Amortization of differences between expected and actual experience | (33) |
| Amortization of changes of assumptions | 364 |
| Total other postemployment benefits expense | <u>\$ 822</u> |

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Deferred outflows of resources and deferred inflows of resources related to postemployment benefits obligations at June 30, 2019 are summarized as follows:

(in thousands of dollars)

| | Deferred Outflows of Resource | Deferred Inflows of Resource |
|--|--|---|
| Differences between expected and actual experience | \$ 149 | \$ 209 |
| Changes of assumptions | 1,343 | 301 |
| Contributions made during the year ended June 30, 2019 not yet recognized in net fiduciary position | 337 | - |
| Total | <u>\$ 1,829</u> | <u>\$ 510</u> |

Deferred outflows related to changes in assumptions and the difference between expected and actual plan experience will be amortized into expense in the following years ended June 30:

(in thousands of dollars)

| Years Ending | |
|---------------------|--------|
| 2020 | \$ 331 |
| 2021 | 331 |
| 2022 | 300 |
| 2023 | 63 |
| Thereafter | (31) |

11. Commitments and Contingencies

Leases

SJMC entered into an amended lease agreement with the City as of October 1, 1987, further amended as of October 1, 1999, with respect to the former UMC facilities to provide for a lease term expiring in 2067 with an additional 30-year renewal option. The agreement provides for annual rentals of \$1 for the lease term. The leased assets are returned to the possession of the City at the termination of the lease. SJMC is responsible for the management, operation, maintenance, and repair of the facilities.

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The following is a schedule, by year, of future minimum lease payments under non-cancelable operating leases as of June 30, 2019:

(in thousands of dollars)

| Years Ending | |
|------------------------------|-------------------|
| 2020 | \$ 17,445 |
| 2021 | 14,649 |
| 2022 | 12,925 |
| 2023 | 10,426 |
| 2024 | 9,789 |
| 2025 - 2029 | 36,193 |
| Thereafter | <u>6,668</u> |
| Total minimum lease payments | <u>\$ 108,095</u> |

Rent expense related to operating leases for the years ended June 30, 2019 and 2018 was approximately \$18,801,000 and \$18,992,000, respectively.

Total gross assets under capital leases included in capital assets were approximately \$23,146,000 and \$22,874,000 at June 30, 2019 and 2018, respectively. Accumulated amortization on capital leases at June 30, 2019 and 2018 was approximately \$17,890,000 and \$16,127,000, respectively.

Future capital lease payments are as follows:

(in thousands of dollars)

| Years Ending | |
|---|-----------------|
| 2020 | \$ 1,958 |
| 2021 | 1,972 |
| 2022 | 1,631 |
| 2023 | 30 |
| 2024 | <u>3</u> |
| Total minimum lease payments | 5,594 |
| Less: Amount representing interest | <u>(224)</u> |
| Present value of net minimum lease payments | <u>\$ 5,370</u> |

Construction and Other Commitments

The Company has contracts for construction and remodeling of facilities and for the purchase and maintenance of computer application software for its core operation systems. The remaining commitments relating to these contracts is \$1,875,000, which includes retainage of \$69,000 at June 30, 2019.

Professional Liability

SJMC participates with other health care providers in the University of Florida J. Hillis Miller Health Center/Jacksonville Self-Insurance Program ("UFJSIP"). UFJSIP is an operating unit of the Board of Governors of the State of Florida ("FBOG"). UFJSIP provides occurrence-based coverage to the Company. Insurance in excess of the coverage provided by UFJSIP is provided by the University of Florida Healthcare Education Insurance Company ("UFHEIC"). UFHEIC is wholly

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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owned by FBOG. UFHEIC provides coverage to the Company on an occurrence basis. UFHEIC obtains reinsurance for a substantial portion of the insurance coverage that it provides to the participants in its insurance program, which is provided on a claims reported basis. The policies between both UFJSIP and UFHEIC and SJMC are not retrospectively rated. The costs incurred by the Company related to these policies are expensed in the period that coverage is provided.

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

Self-Insurance

The Company has a self-insurance plan for health and medical coverage for the employees of the Company. Amounts contributed by the Company and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expenses related to the self-insured health and medical plan for the years ended June 30, 2019 and 2018 were approximately \$32,135,000 and \$30,923,000, respectively.

SJMC is self-insured for workers' compensation up to \$600,000 per occurrence, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. Total workers' compensation expense for the years ended June 30, 2019 and 2018 was approximately \$693,000 and \$778,000, respectively.

Litigation

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

In addition, the Affordable Care Act requires organizations who receive overpayments from Medicare and other federal programs whether due to inappropriate billings, lack of required documentation, or other reasons, to report and return such amounts. The Company routinely conducts reviews of the accuracy of the billing system in place, as well investigates any allegations that may indicate inappropriate billings or receipt of overpayments. The Company has made and will continue to make routine refunds of any identified overpayments to the fiscal intermediaries. The Company may also make repayments to the Office of the Inspector General of the Department

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

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of Health and Human Services (the "OIG") through the use of the Self-Referral Disclosure Protocol. Such overpayments result from inaccurate or ineligible billings. In some cases, these disclosures may result in the Company refunding the overpayment and paying penalties as they may be assessed.

During the year ended June 30, 2016, the Company became aware of inaccurate billings in a certain department and has made use of the Self-Referral Disclosure Protocol, discussed above, and accrued a liability for the estimated amount of the overpayments and corresponding penalties as such amounts were estimable and probable of payment. During the year ended June 30, 2018, the Company settled this matter with the OIG and paid such amounts due pursuant to the settlement.

The Company believes that the liability recorded in estimated third party payor settlements on the consolidated basic statements of net position is the Company's best estimate of amounts due to Medicare, Medicaid and other third party payors for settlements related to outstanding cost reports and any overpayments. These matters, once resolved, could result in settlements that differ from the amounts accrued.

12. Transactions with Related Parties

As of June 30, 2019, SJMC and UFJPI were contingently liable as joint and several co-guarantors for the payment of 100% of both the principal and interest on \$8,500,000 of Industrial Revenue Bonds related to the indebtedness of the Faculty Clinic, Inc. The guarantees were issued in connection with the Industrial Revenue Bonds, which were used to build the facility in which SJMC and UFJPI are currently tenants. The bonds were issued on January 11, 1989, bearing variable interest rates and mature on July 1, 2019. At June 30, 2019, the outstanding amount of the Industrial Revenue Bonds is \$800,000. As scheduled, the bonds were repaid in July 2019. The bonds are collateralized by an irrevocable letter of credit with a bank which expires in August 2019.

Shands, a related party controlled by UF, entered into a Support Services Agreement to support, as needed, the management team of SJMC in the administrative functions of the hospital through the provision of services and personnel. Expenses related to these services were approximately \$6,003,000 and \$7,383,000 for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the Company owed Shands approximately \$696,000 and \$1,080,000, respectively.

SJMC supports UF College of Medicine – Jacksonville's clinical, teaching and research activities and contracts for certain medical services from UFJPI. These expenditures were approximately \$69,524,000 and \$67,118,000 for the years ended June 30, 2019 and 2018, respectively, of which approximately \$32,272,000 and \$31,901,000 for the years ended June 30, 2019 and 2018, respectively, are transfers and expenditures in support of UF and its medical programs included under this caption in the accompanying consolidated basic statements of revenue, expenses, and changes in net position. At June 30, 2019 and 2018, payables related to this arrangement amounted to approximately \$11,659,000 and \$7,783,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

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At June 30, 2019 and 2018, the Company has a note payable (“2011 Shands Note Payable”) of approximately \$14,386,000 and \$15,321,000, respectively, due to Shands. The 2011 Shands Note Payable is payable in quarterly principal and interest installments of \$402,310, with interest at 4.5% annually and matures on October 1, 2030. The current portion of the note payable of approximately \$978,000 and \$936,000 is included within short-term and long-term debt, current portion, and the long-term portion of the note payable of approximately \$13,407,000 and \$14,385,000 is included within long-term debt, noncurrent portion, at June 30, 2019 and 2018, respectively, in the accompanying consolidated basic statements of net position.

At June 30, 2019, the Company has a short-term note payable of \$7,300,000 due to UFJPI in full no later than July 3, 2019, which was paid accordingly.

13. Concentrations of Credit Risk

SJMC grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors is as follows:

| | 2019 | 2018 |
|--------------------------|-------------|-------------|
| Medicare | 24% | 26% |
| Medicaid | 19% | 25% |
| Managed Care | 22% | 21% |
| Other third-party payors | 35% | 28% |
| | <u>100%</u> | <u>100%</u> |

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents, investments and patient accounts receivable. Concentrations of credit risk with respect to patient accounts receivable are limited to Medicare, Medicaid and various commercial payors. The Company places its cash and cash equivalents and investments with what management believes to be high-quality financial institutions and thus limits its credit exposure. The Company has deposits in excess of the federal insured amount of \$250,000. Management does not anticipate nonperformance risk by the financial institutions.

14. Subsequent Events

The Company has assessed the impact of subsequent events through September 25, 2019, the date the audited consolidated basic financial statements were issued, and has concluded that there are no such events, other than the changes to debt described below, that require adjustment to or disclosure in the consolidated basic financial statements.

On September 20, 2019, the Company permanently amended the Series 2015, UF Health Project, Healthcare Revenue Bonds’ days cash on hand covenant from 60 to 50 days. Simultaneously, the Company closed on the \$20,000,000 tax exempt direct placement Health Facilities Revenue Bonds Series 2019 and the \$10,000,000 Series 2019A Revolving Line of Credit Note, which include the same 50 days cash on hand requirement. The proceeds of Series 2019 debt will refinance the \$20,000,000 Series 2015A Revolving Line of Credit, which will be terminated. Cost related to the Series 2019 issuance will be paid directly by the Company. Series 2019 bonds will mature in 10 years. The Company has not drawn upon the Series 2019A Revolving Line of Credit Note.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Changes in the Net Pension (Asset) Liability and Related Ratios
(Unaudited)
June 30, 2014 Through June 30, 2019

(in thousands of dollars)

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|-----------|------------|-----------|
| Total pension liability | | | | | | |
| Service cost | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 30 |
| Interest | 4,293 | 4,494 | 4,738 | 4,911 | 4,940 | 4,925 |
| Changes of benefit terms | - | - | - | - | - | - |
| Differences between expected and actual experience | (1,381) | 754 | (714) | 769 | 44 | (519) |
| Changes of assumptions | 3,289 | (1,907) | (2,637) | 5,873 | 128 | 2,390 |
| Benefit payments | (6,916) | (6,113) | (7,942) | (6,196) | (6,050) | (5,986) |
| Net change in total pension liability | (715) | (2,772) | (6,555) | 5,357 | (938) | 840 |
| Total pension liability – beginning | 66,861 | 69,633 | 76,188 | 70,831 | 71,769 | 70,929 |
| Total pension liability – ending (a) | \$ 66,146 | \$ 66,861 | \$ 69,633 | \$ 76,188 | \$ 70,831 | \$ 71,769 |
| Plan fiduciary net position | | | | | | |
| Employer contributions | \$ 2,016 | \$ 2,072 | \$ 1,241 | \$ 1,408 | \$ 2,439 | \$ 3,316 |
| Net investment income | 4,530 | 8,556 | 487 | 2,358 | 11,156 | 7,975 |
| Benefit payments | (6,916) | (6,113) | (7,942) | (6,196) | (6,050) | (5,986) |
| Administrative expense | (294) | (646) | (663) | (579) | (519) | (452) |
| Net change in fiduciary net position | (664) | 3,869 | (6,877) | (3,009) | 7,026 | 4,853 |
| Plan fiduciary net position – beginning | 67,088 | 63,219 | 70,096 | 73,105 | 66,079 | 61,226 |
| Plan fiduciary net position – ending (b) | \$ 66,424 | \$ 67,088 | \$ 63,219 | \$ 70,096 | \$ 73,105 | \$ 66,079 |
| Net pension (asset) liability – ending (a)-(b) | \$ (278) | \$ (227) | \$ 6,414 | \$ 6,092 | \$ (2,274) | \$ 5,690 |
| Plan fiduciary net position as a percentage of total pension liability | 100.42% | 100.34% | 90.79% | 92.00% | 103.21% | 92.07% |

Notes to Schedule

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

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

Changes of assumptions 2019

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

The interest credit assumption was updated to 4.24% for 2018/2019 to reflect the actual rate in effect for the year.

The ultimate interest credit rate was unchanged.

The cost of living assumption was updated to 1.63% for 2017/2018 and 1.88% for 2018/2019.

The ultimate cost of living rate was unchanged at 2.00%.

Changes of assumptions 2018

Mortality was updated from MMP-2007 to MMP 2016 projection scale.

The interest credit assumption was updated from 3.42% to 3.17% for 2017/2018 to reflect the actual rate in effect for the year.

The ultimate interest credit rate was unchanged.

The cost of living assumption was updated to 1.01% for 2016/2017 and 1.1% for 2017/2018.

The ultimate cost of living rate was unchanged at 2.00%.

Changes of assumptions 2017:

The investment return assumption was increased from 6.5% 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 experience study performed in 2015.

Changes of assumptions 2015:

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

Changes of assumptions 2014:

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Schedule of Employer Contributions (Unaudited)

July 1, 2013 Through June 30, 2019

Schedule of Employer Contributions

(in thousands of dollars)

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | 1,333 | 2,017 | 2,071 | 1,241 | 1,408 | 2,439 |
| Contribution excess | <u>\$ (1,333)</u> | <u>\$ (2,017)</u> | <u>\$ (2,071)</u> | <u>\$ (1,241)</u> | <u>\$ (1,408)</u> | <u>\$ (2,439)</u> |

Notes to Schedule

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

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 July 1, 2013.

Assumptions and methods used to determine those contributions for the years with available information are:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|------------------------|---|---|--|--|--|
| Valuation date | July 1, 2018 | July 1, 2017 | July 1, 2016 | July 1, 2015 | July 1, 2014 |
| Actuarial cost method | Unit Credit | Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Asset valuation method | 2-year smoothing | 2-year smoothing | Market value including receivables | Market value including receivables | Market value including receivables |
| Inflation | 2.00% | 2.00% | 2.00% | 2.00% | 2.50% |
| Discount rates | PPA segmented yield curve rate of 3.92% for the first 5 years, 5.52% for the next 15 years, and 6.29% thereafter | PPA segmented yield curve rate of 3.92% for the first 5 years, 5.52% for the next 15 years, and 6.29% thereafter | 6.50% | 6.50% | 7.25% |
| Retirement age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age | Traditional plan and retirement growth account retirement rates vary by age |
| Mortality | The prescribed static annuitant and non-annuitant mortality tables are based on the RP-2000 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the IRS methodology and projection scale MP-2016. | IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2000 mortality tables and projected with improvement to the valuation years plus 7 and 15 years based on Scale AA. | RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP-2016 mortality improvement tables. | RP-2014 mortality tables with future mortality improvement that follows the Mercer Modified MP-2014 mortality improvement scale. | RP-2000 healthy annuitant mortality tables projected with mortality improvement to the valuation year plus 7 and 15 years based on scale AA. |

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2019

(in thousands of dollars)

| | Shands Jacksonville Medical Center Obligated Group ⁽¹⁾ | Other | Eliminations | Consolidated Total |
|---|--|-------------------|---------------------|-------------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 100,247 | \$ 2,350 | \$ - | \$ 102,597 |
| Short-term investments | 1,429 | - | - | 1,429 |
| Patient accounts receivable, net | 118,916 | - | - | 118,916 |
| Due from city and state agencies | 871 | - | - | 871 |
| Inventories | 16,691 | - | - | 16,691 |
| Prepaid expenses and other current assets | 57,584 | 11,771 | (57,732) | 11,623 |
| Assets whose use is restricted, current portion | 3,415 | - | - | 3,415 |
| Total current assets | <u>299,153</u> | <u>14,121</u> | <u>(57,732)</u> | <u>255,542</u> |
| Assets whose use is restricted, less current portion | 26,045 | - | - | 26,045 |
| Capital assets, net | 228,825 | 20,328 | - | 249,153 |
| Other assets | 16,366 | 2,198 | - | 18,564 |
| Total assets | <u>570,389</u> | <u>36,647</u> | <u>(57,732)</u> | <u>549,304</u> |
| Deferred outflows of resources | | | | |
| Accumulated decrease in fair value of hedge derivatives | 176 | - | - | 176 |
| Deferred other postemployment benefits outflows | 1,829 | - | - | 1,829 |
| Deferred pension outflows | 4,028 | - | - | 4,028 |
| Total deferred outflows of resources | <u>6,033</u> | <u>-</u> | <u>-</u> | <u>6,033</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Short-term and long-term debt, current portion | 15,784 | - | - | 15,784 |
| Capital lease obligations, current portion | 1,830 | - | - | 1,830 |
| Accounts payable and accrued expenses | 76,070 | 42,006 | (57,732) | 60,344 |
| Accrued salaries and leave payable | 34,655 | - | - | 34,655 |
| Estimated third-party payor settlements | 4,920 | - | - | 4,920 |
| Total current liabilities | <u>133,259</u> | <u>42,006</u> | <u>(57,732)</u> | <u>117,533</u> |
| Long-term liabilities | | | | |
| Long-term debt, noncurrent portion | 227,245 | - | - | 227,245 |
| Capital lease obligations, noncurrent portion | 3,541 | - | - | 3,541 |
| Other liabilities | 10,146 | 2 | - | 10,148 |
| Total long-term liabilities | <u>240,932</u> | <u>2</u> | <u>-</u> | <u>240,934</u> |
| Total liabilities | <u>374,191</u> | <u>42,008</u> | <u>(57,732)</u> | <u>358,467</u> |
| Deferred inflows of resources | | | | |
| Accumulated increase in fair value of hedge derivatives | 3,101 | - | - | 3,101 |
| Deferred other postemployment benefits inflows | 510 | - | - | 510 |
| Deferred pension inflows | 3,331 | - | - | 3,331 |
| Total deferred inflows of resources | <u>6,942</u> | <u>-</u> | <u>-</u> | <u>6,942</u> |
| Commitments and contingencies | | | | |
| Net position | | | | |
| Net investment in capital assets | 23,272 | 20,328 | - | 43,600 |
| Restricted | | | | |
| Expendable | 3,869 | 924 | - | 4,793 |
| Unrestricted | 168,148 | (26,613) | - | 141,535 |
| Total net position | <u>\$ 195,289</u> | <u>\$ (5,361)</u> | <u>\$ -</u> | <u>\$ 189,928</u> |

(1) Per the Master Trust Indenture dated June 1, 2013, the Obligated Group is comprised of Shands Jacksonville HealthCare, Inc., Shands Jacksonville Medical Center, Inc. and Shands Jacksonville Properties, Inc.

The accompanying note is an integral part of these consolidating basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2018

(in thousands of dollars)

| | Shands Jacksonville Medical Center Obligated Group ⁽¹⁾ | Other | Eliminations | Consolidated Total |
|---|--|-------------------|---------------------|-------------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 99,596 | \$ 4,053 | \$ - | \$ 103,649 |
| Short-term investments | 442 | 1 | - | 443 |
| Patient accounts receivable, net | 115,095 | - | - | 115,095 |
| Due from city and state agencies | 66 | - | - | 66 |
| Inventories | 16,576 | - | - | 16,576 |
| Prepaid expenses and other current assets | 55,815 | 11,895 | (56,391) | 11,319 |
| Assets whose use is restricted, current portion | 2,768 | - | - | 2,768 |
| Total current assets | <u>290,358</u> | <u>15,949</u> | <u>(56,391)</u> | <u>249,916</u> |
| Assets whose use is restricted, less current portion | 26,005 | - | - | 26,005 |
| Capital assets, net | 244,766 | 20,951 | - | 265,717 |
| Other assets | 14,400 | 2,198 | - | 16,598 |
| Total assets | <u>575,529</u> | <u>39,098</u> | <u>(56,391)</u> | <u>558,236</u> |
| Deferred outflows of resources | | | | |
| Deferred other postemployment benefits outflows | 2,392 | - | - | 2,392 |
| Deferred pension outflows | 3,893 | - | - | 3,893 |
| Total deferred outflows of resources | <u>6,285</u> | <u>-</u> | <u>-</u> | <u>6,285</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Short-term and long-term debt, current portion | 8,205 | - | - | 8,205 |
| Capital lease obligations, current portion | 1,788 | - | - | 1,788 |
| Accounts payable and accrued expenses | 76,023 | 42,113 | (56,391) | 61,745 |
| Accrued salaries and leave payable | 32,566 | - | - | 32,566 |
| Estimated third-party payor settlements | 7,783 | - | - | 7,783 |
| Total current liabilities | <u>126,365</u> | <u>42,113</u> | <u>(56,391)</u> | <u>112,087</u> |
| Long-term liabilities | | | | |
| Long-term debt, noncurrent portion | 235,833 | - | - | 235,833 |
| Capital lease obligations, noncurrent portion | 5,180 | - | - | 5,180 |
| Other liabilities | 10,410 | 3 | - | 10,413 |
| Total long-term liabilities | <u>251,423</u> | <u>3</u> | <u>-</u> | <u>251,426</u> |
| Total liabilities | <u>377,788</u> | <u>42,116</u> | <u>(56,391)</u> | <u>363,513</u> |
| Deferred inflows of resources | | | | |
| Accumulated increase in fair value of hedge derivatives | 2,862 | - | - | 2,862 |
| Deferred other postemployment benefits inflows | 233 | - | - | 233 |
| Deferred pension inflows | 4,427 | - | - | 4,427 |
| Total deferred inflows of resources | <u>7,522</u> | <u>-</u> | <u>-</u> | <u>7,522</u> |
| Commitments and contingencies | | | | |
| Net position | | | | |
| Net investment in capital assets | 30,312 | 20,951 | - | 51,263 |
| Restricted | | | | |
| Expendable | 3,395 | 1,758 | - | 5,153 |
| Unrestricted | 162,797 | (25,727) | - | 137,070 |
| Total net position | <u>\$ 196,504</u> | <u>\$ (3,018)</u> | <u>\$ -</u> | <u>\$ 193,486</u> |

(1) Per the Master Trust Indenture dated June 1, 2013, the Obligated Group is comprised of Shands Jacksonville HealthCare, Inc., Shands Jacksonville Medical Center, Inc. and Shands Jacksonville Properties, Inc.

The accompanying note is an integral part of these consolidating basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and
Changes in Net Position
Year Ended June 30, 2019

(in thousands of dollars)

| | Shands Jacksonville Medical Center Obligated Group ⁽¹⁾ | Other | Eliminations | Consolidated Total |
|---|--|-------------------|--------------|-----------------------|
| Operating revenues | | | | |
| Net patient service revenue, net of provision for bad debts of \$64,316 | \$ 739,037 | \$ - | \$ - | \$ 739,037 |
| Other operating revenue | 12,342 | 2,601 | (299) | 14,644 |
| Total operating revenues | <u>751,379</u> | <u>2,601</u> | <u>(299)</u> | <u>753,681</u> |
| Operating expenses | | | | |
| Salaries and benefits | 337,156 | 204 | - | 337,360 |
| Supplies and services | 343,294 | 2,698 | (299) | 345,693 |
| Depreciation and amortization | 33,677 | 622 | - | 34,299 |
| Total operating expenses | <u>714,127</u> | <u>3,524</u> | <u>(299)</u> | <u>717,352</u> |
| Operating income (deficit) | <u>37,252</u> | <u>(923)</u> | <u>-</u> | <u>36,329</u> |
| Nonoperating revenues (expenses) | | | | |
| Interest expense | (9,821) | - | - | (9,821) |
| Net investment gain, including change in fair value | 1,962 | 61 | - | 2,023 |
| Gain on disposal of capital assets, net | 20 | - | - | 20 |
| Other nonoperating gain (loss), net | 106 | - | - | 106 |
| Total nonoperating (expenses) revenue, net | <u>(7,733)</u> | <u>61</u> | <u>-</u> | <u>(7,672)</u> |
| Excess (deficit) of revenues over expenses before transfers and capital contributions | 29,519 | (862) | - | 28,657 |
| Transfers and expenditures in support of the University of Florida and its medical programs | (32,272) | - | - | (32,272) |
| Capital contributions, net | 1,538 | (1,481) | - | 57 |
| Decrease in net position | <u>(1,215)</u> | <u>(2,343)</u> | <u>-</u> | <u>(3,558)</u> |
| Net position | | | | |
| Beginning of year | 196,504 | (3,018) | - | 193,486 |
| End of year | <u>\$ 195,289</u> | <u>\$ (5,361)</u> | <u>\$ -</u> | <u>\$ 189,928</u> |

(1) Per the Master Trust Indenture dated June 1, 2013, the Obligated Group is comprised of Shands Jacksonville HealthCare, Inc., Shands Jacksonville Medical Center, Inc. and Shands Jacksonville Properties, Inc.

The accompanying note is an integral part of these consolidating basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and
Changes in Net Position
Year Ended June 30, 2018

(in thousands of dollars)

| | Shands Jacksonville Medical Center Obligated Group ⁽¹⁾ | Other | Eliminations | Consolidated Total |
|---|--|-------------------|---------------------|-------------------------------|
| Operating revenues | | | | |
| Net patient service revenue, net of provision for bad debts of \$66,261 | \$ 705,617 | \$ - | \$ - | \$ 705,617 |
| Other operating revenue | <u>11,100</u> | <u>2,673</u> | <u>(299)</u> | <u>13,474</u> |
| Total operating revenues | <u>716,717</u> | <u>2,673</u> | <u>(299)</u> | <u>719,091</u> |
| Operating expenses | | | | |
| Salaries and benefits | 324,792 | 305 | - | 325,097 |
| Supplies and services | 321,402 | 1,724 | (299) | 322,827 |
| Depreciation and amortization | <u>35,461</u> | <u>622</u> | <u>-</u> | <u>36,083</u> |
| Total operating expenses | <u>681,655</u> | <u>2,651</u> | <u>(299)</u> | <u>684,007</u> |
| Operating income | <u>35,062</u> | <u>22</u> | <u>-</u> | <u>35,084</u> |
| Nonoperating revenues (expenses) | | | | |
| Interest expense | (9,558) | - | - | (9,558) |
| Net investment gain, including change in fair value | 1,192 | 34 | - | 1,226 |
| Gain on disposal of capital assets, net | 8,034 | - | - | 8,034 |
| Other nonoperating gain (loss), net | <u>338</u> | <u>-</u> | <u>-</u> | <u>338</u> |
| Total nonoperating revenue, net | <u>6</u> | <u>34</u> | <u>-</u> | <u>40</u> |
| Excess of revenues over expenses before transfers and capital contributions | 35,068 | 56 | - | 35,124 |
| Transfers and expenditures in support of the University of Florida and its medical programs | (31,901) | - | - | (31,901) |
| Capital contributions, net | <u>299</u> | <u>(290)</u> | <u>-</u> | <u>9</u> |
| Increase (decrease) in net position | 3,466 | (234) | - | 3,232 |
| Net position | | | | |
| Beginning of year | <u>193,038</u> | <u>(2,784)</u> | <u>-</u> | <u>190,254</u> |
| End of year | <u>\$ 196,504</u> | <u>\$ (3,018)</u> | <u>\$ -</u> | <u>\$ 193,486</u> |

(1) Per the Master Trust Indenture dated June 1, 2013, the Obligated Group is comprised of Shands Jacksonville HealthCare, Inc., Shands Jacksonville Medical Center, Inc. and Shands Jacksonville Properties, Inc.

The accompanying note is an integral part of these consolidating basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Note to Supplemental Consolidating Information

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 the Company as of June 30, 2019 and 2018 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.