Consolidated Basic Financial Statements, Required Supplementary Information and Supplemental Consolidating Information

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Year Ended June 30, 2021
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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Consolidated Basic Financial Statements, Required Supplementary Information and Supplemental Consolidating Information

Year Ended June 30, 2021

Contents

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Report of Independent Auditors

The Board of Directors
Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis (unaudited) on pages 4 through 17, the schedule of the Company's proportionate share of the net pension (asset) liability (unaudited) on page 71 and the schedule of employer contributions (unaudited) on page 72 be presented to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements and other knowledge we obtained during our audit of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Company's consolidated basic financial statements. The supplemental consolidating information on pages 73 through 75 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. Such information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplemental consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

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

Ernst & Young LLP

September 21, 2021

Introduction

Below is Shands Jacksonville HealthCare, Inc. and Subsidiaries' ("SJH" or the "Company") analysis of its financial performance for the year ended June 30, 2021, with comparative information as of and for the year ended June 30, 2020. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements and related note disclosures.

Organization

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 ("UF") 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., or "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, Landmark Healthcare Facilities, LLC ("Landmark"), that constructed a new medical office building, Jacksonville Medical Office Building, LLC ("JMOB LLC"), 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.

Effective October 1, 2019, a consolidated affiliate of the Company, Shands Jacksonville Community Services, Inc. ("SJCS") became a member of JMOB LLC by acquiring 3,459 Class A membership units, or 34.59% of total Class A units, in exchange for its participation in Landmark's no-cost ownership program. The Company did not provide anything of value to the JMOB LLC or Landmark in exchange for the membership units. Class A membership units have no power to influence the JMOB LLC. As a result, the Company accounted for this transaction as a voluntary non-exchange transaction, recognized $15.5 million, the fair value of the ownership interest, as voluntary non-exchange revenue in the consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2020, with a corresponding investment in the statement of net position as of June 30, 2020, which is unchanged as of June 30, 2021.

Effective July 2, 2019, a consolidated affiliate became a member of Yulee Medical Office Building, LLC ("YMOB LLC") by acquiring 500 Class A membership units, or 50% of total Class A units, in exchange for its participation in a no-cost ownership program offered by the developer, Landmark, of a medical office building in north Jacksonville, Florida, in which SJCS leases space, commencing September 1, 2020. Class A membership units have no power to influence the YMOB LLC. Through this agreement, consolidated affiliates of the Company will be a tenant in the building as well as a partial owner of the entity that legally owns the building, YMOB LLC. During fiscal year 2020, the Company was deemed to be the owner of the building during the construction period under the accounting rules and, accordingly, recognized the construction in progress and a corresponding financing obligation in other liabilities in the consolidated basic statement of net position as of June 30, 2020, though the Company neither has title to YMOB LLC nor responsibility for the debt related to the construction of it. Upon construction completion, the Company is still deemed to be the owner of the building as a result of the continuing involvement associated with the ownership interest held in YMOB LLC. Accordingly, final construction costs were recognized as of September 1, 2020. As of June 30, 2021, $13.2 million is recorded in capital assets, net; $0.6 million is recorded in finance obligation, current portion; and $12.9 million is recorded as a financing obligation in other liabilities in the consolidated basic statement of net position.

The accompanying consolidated basic financial statements include the accounts of the Company and its subsidiaries as of and for the year ended June 30, 2021. The "Company" in these consolidated basic financial statements refers to the consolidated operations of these entities. Significant transactions between these entities have been eliminated.

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 statement of net position reflects all of the Company's assets, liabilities and deferred inflows and outflows of resources 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 statement of revenues, expenses and changes in net position presents the change in net position resulting from revenues earned and expenses incurred. All changes in net position are reported as revenues are earned and expenses are incurred, regardless of the timing of related cash flows.

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

Financial Analysis of the Company

Consolidated Basic Statement 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 of resources are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

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

	June 30	
	2021	**2020**
	(Dollars in Thousands)	
Cash and cash equivalents and short-term investments	$ 212,745	$ 164,454
Other current assets	160,584	144,797
Capital assets, net	273,371	247,717
Other noncurrent assets	65,310	64,310
Total assets	712,010	621,278
Deferred outflows of resources	3,295	6,413
Current liabilities	167,631	165,186
Noncurrent liabilities	265,830	245,054
Total liabilities	433,461	410,240
Deferred inflows of resources	6,557	7,130
Net position		
Net investment in capital assets	48,114	20,403
Restricted:		
Expendable	5,032	5,181
Unrestricted	222,141	184,737
Total net position	$ 275,287	$ 210,321

Cash and cash equivalents and short-term investments increased by approximately $48.3 million, or 29.4%. Cash generated from operations was approximately $46.6 million.

Other current assets increased by approximately $15.8 million, or 10.9%. The increase is mainly due to a $17.8 million increase in net patient accounts receivable and a $0.4 million increase in prepaid expense, offset by a $1.7 million decrease in the current portion of assets limited as to use when collateral was returned upon final maturity of a swap, as scheduled; a $0.4 million decrease in due from city and state agencies; and a $0.3 million decrease in supply inventories.

Capital assets, net, increased approximately $25.7 million, or 10.4%, with a $57.1 million increase in assets offset by a $31.4 million increase in accumulated depreciation. The increase in capital assets includes approximately $27.7 million for a capital grant provided by the City of Jacksonville for capital improvements associated with property it owns on the downtown campus and leases to SJMC. The increase in capital assets also includes $3.7 million for additional construction costs for the YMOB LLC building constructed on the Company's land, discussed above.

Other noncurrent assets increased $1.0 million, or 1.6%, primarily due to a $2.3 million increase in pension asset, offset by a $0.7 million decrease of contributed capital in a direct service organization (GatorCare Health Management Corporation) that provides employee health plans, and a $0.6 million decrease in deposits, investment in subsidiaries and noncurrent assets limited as to use.

Deferred outflows of resources decreased by approximately $3.1 million, or 48.6%, with a decrease of $1.5 million attributed to the pension plan, a $1.3 million decrease related to market value of bond swaps and a decrease of $0.3 million attributed to the other postemployment benefits.

Current liabilities increased approximately $2.4 million, or 1.5%, primarily related to a $12.9 million increase based on the timing of payment processing; a $12.1 million increase for accrued salaries and leave payable, which includes $6.2 million payable by December 31, 2021, for half of the deferred employer payroll tax liability associated with the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") passed by Congress and signed into law on March 27, 2020, which is discussed further below in the "COVID-19 Pandemic" section; and a $1.0 million increase in the current portion due on long-term debt, leases and other borrowings, offset by a $23.6 million decrease for estimated third-party liabilities, which includes reclassification of $21.2 million to noncurrent liabilities, and repayment of $7.9 million, of the Medicare Accelerated and Advance Payment Program funds discussed further below in the "COVID-19 Pandemic" section.

Noncurrent liabilities increased approximately $20.8 million, or 8.5%, primarily due to the reclassification of $21.2 million from current liabilities for Medicare Accelerated and Advance Payment Program funds discussed above in current liabilities and further below in the "COVID-19 Pandemic" section; $3.4 million of deferred CARES Act grant revenue discussed further below in the "COVID-19 Pandemic" section; a $2.7 million increase in CARES Act deferred employer payroll tax liability, which is discussed above and further below in the "COVID-19 Pandemic" section; and a $2.6 million increase in financing obligation for the YMOB LLC, as discussed further above, offset by a $6.7 million decrease for debt and capital lease payments and reclassifications to current portions due; a $1.3 million decrease in the market value of bond swaps; a $0.8 million decrease for other accrued postretirement benefit accruals; and a $0.3 million decrease in various other noncurrent balances.

Deferred inflows of resources decreased by approximately $0.6 million, or 8.0%, with a $1.0 million decrease attributed to the pension plan, offset by a $0.4 million increase attributed to the other postemployment benefits.

As of June 30, 2021, the Company has approximately $216.9 million in debt outstanding compared with approximately $225.8 million at June 30, 2020. The decrease is from making payments as scheduled. As of June 30, 2021, the Company has approximately $8.3 million of capital leases, which is an increase of $2.6 million since the approximately $5.7 million balance at June 30, 2020. The increase is from additional capital leases added offset by payments made. 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 September 20, 2019, the Company closed on the $20 million tax exempt direct placement Health Facilities Revenue Bonds, Series 2019, and the $10 million Series 2019A Revolving Line of Credit Note. The proceeds of Series 2019 debt were used as reimbursement for costs of certain capital equipment and improvements and refinanced the $20 million Series 2015A Revolving Line of Credit, which terminated. The full $10 million of the Series 2019A Revolving Line of Credit Note was requested on November 18, 2019, and repaid on February 4, 2020. There is no outstanding balance as of June 30, 2021. 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 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 were used to reimburse or fund capital projects.

The promissory note owed to Shands in an original amount of approximately $42.3 million was recorded by the Company during 2011. In September 2015, the Company's Board of Directors agreed to accept the offer from the Shands Board of Directors to reduce the note due to Shands by approximately $17.7 million, effective July 1, 2015. The promissory note owed to Shands has an outstanding balance of $12.4 million as of June 30, 2021.

The Company was in compliance with all financial covenants as of June 30, 2021.

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.

	June 30	
	2021	**2020**
	(Dollars in Thousands)	
Net patient service revenue	$ 806,857	$ 742,006
Other operating revenue	16,535	12,361
Total operating revenues	823,392	754,367
Operating expenses	821,082	762,923
Operating income	2,310	(8,556)
Nonoperating revenue, net	34,653	24,184
Excess of revenues over expenses before capital contributions	36,963	15,628
Other changes in net position:		
City of Jacksonville capital grant	27,698	4,765
Capital contributions, net	305	–
Increase in net position	64,966	20,393
Net position		
Beginning of year	210,321	189,928
End of year	$ 275,287	$ 210,321

Patient Volumes

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

	2021	2020
Inpatient admissions	25,475	25,452
Outpatient visits	578,112	534,961

Inpatient admissions, excluding observation cases, increased by 23, or 0.1%. Outpatient visits increased by 43,151, or 8.1%.

Operating Revenues

Patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, increased approximately $64.9 million, or 8.7%, which is largely due to a more favorable mix of admissions, including a 6.6% lower level of observation cases; an 8.1% increase in outpatient volume, noted above; an 8.0% increase in surgical volume; a 5.8% increase in total hospital case mix index and a $5.7 million, or 4.7%, increase in City and State funding.

Other operating revenue increased approximately $4.2 million, or 33.8%, primarily related to operating grants revenue increases.

Operating Expenses

Operating expenses increased approximately $58.2 million, or 7.6%. Salaries and benefits increased approximately $32.6 million, or 9.5%, which is primarily related to COVID-19 and employee retention related costs as well as higher contract labor and overtime costs. Supplies and services increased approximately $25.7 million, or 6.6%, primarily related to $16.9 million of medical supply increases, notably for lab and pharmacy, in response to the COVID-19 Pandemic described further below, as well as expansion of specialty drugs in ambulatory pharmacy; a $3.8 million increase in purchased services, primarily related to dietary services, the hospitalist program, and repair and maintenance costs; a $3.5 million increase in professional fees, which is primarily related to infusion oncology and a consulting fee associated with a third-party cost report settlement; and a $2.1 million increase in expenditures in support of UF, offset by a $0.6 million decrease in other operating expenses. Depreciation expense decreased $0.2 million, or 0.5%, based on retirements and timing of new property, plant and equipment in service dates.

Nonoperating Revenues (Expenses), Net

Nonoperating revenues, net, were approximately $34.7 million, which includes $42.4 million of CARES Act grant revenue described further in the "COVID-19 Pandemic" section below; other nonoperating gains of $0.1 million for an increase in fair value of the nonhedged derivatives, offset by interest expense of approximately $7.4 million; net investment loss of approximately $0.2 million, including the decrease in fair value of approximately $2.8 million; and a $0.2 million loss on disposal of assets.

City of Jacksonville Capital Grant

On March 20, 2019, SJMC executed an agreement with the City for capital improvements to City owned property leased by SJMC on its Downtown campus. The agreement allocated $120 million over a six year period. Each City fiscal year, which begins annually on October 1st, funding is approved by the City during its annual budget approval process. Once approved, SJMC receives an amendment to the agreement increasing the City's maximum indebtedness by the approved amount. As of June 30, 2021, $55 million has annual City budget approval. Approved amounts are paid to SJMC as reimbursement for amounts SJMC has paid directly to vendors. For the fiscal year ended June 30, 2021, approximately $27.7 million is recorded as capital grant revenue in the consolidated basic statement of revenues, expenses and changes in net position, which is an increase of approximately $22.9 million over the prior year.

Consolidated Basic Statement of Cash Flows

Cash and cash equivalents decreased by approximately $0.4 million, or 0.3%. Cash inflows were primarily related to net cash received from patients and third-party payors of $790.0 million; $45.7 million of grant revenue, which primarily relates to the CARES Act, discussed further below in the "COVID-19 Pandemic" section; $24.8 million from capital grants; other receipts from operations of $16.1 million; $2.7 million of investment income; $0.3 million of other capital contributions; and $0.1 million of proceeds from disposal of capital assets. Cash outflows were primarily related to cash used by operating activities paid to employees and vendors of $759.6 million; payments for acquisition of capital assets of $50.3 million; purchase of short-term investments and assets limited as to use of $49.7 million; and debt, lease, other borrowing and interest payments of $20.5 million.

COVID-19 Pandemic

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

On April 29, 2020, Governor DeSantis issued Executive Order 20-112, with an effective date of May 4, 2020, lifting the prohibition on elective procedures established by Executive Order 20-72. On May 4, 2020, the Company resumed elective surgeries and procedures at all of its inpatient and outpatient facilities. A number of measures were enhanced to safeguard the health of patients, visitors and caregivers. These measures have evolved throughout the pandemic as management continues to work with UF epidemiologists and infectious disease experts, considers the Centers for Disease Control and Prevention and Florida Department of Health guidelines, and makes adjustments as indicated by the burden of the disease and the state of the science.

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

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

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

- The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020, and authorized $100 billion in direct funding to hospitals and other health care providers through the creation of a Provider Relief Fund ("PRF"). Congress later passed the Paycheck Protection Program and Health Care Enactment Act on April 24, 2020, which increased the amount of the PRF to $175 billion. This funding is intended to compensate health care providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and is not required to be repaid, provided recipients attest to and comply with certain terms and conditions. In April 2020, the U.S. Department of Health and Human Services ("HHS") made general distributions totaling $50 billion (in two tranches of $30 billion and $20 billion) to all health care providers in proportion to providers' share of 2018 net patient service revenue and an additional $4.9 billion to skilled nursing facilities. Between April and June 2020, the Company received distributions of $15.6 million as part of the general and skilled nursing facility distributions from the PRF. In July 2020, the Company received $45.6 million related to HHS's $14.4 billion safety net hospital distributions. In August 2020, November 2020 and January 2021, the Company received $0.2 million related to HHS's distributions to skilled nursing facilities. As a result of COVID-19 volume loss and additional operating expenses, the Company has recognized, as grant revenue in the consolidated basic statement of revenues, expenses and changes in net position, $15.6 million in the fiscal year ended June 30, 2020, and $42.4 million in the fiscal year ended June 30, 2021. At June 30, 2021, $3.4 million is recorded in other liabilities in the consolidated basic statement of net position.

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

- The CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. Acute care hospitals may request accelerated payments of up to 100% of their total Medicare payment amount for a six-month period based on the last six months of 2019. Initially, such accelerated payments were interest free for 12 months, and the program required CMS to recoup the payments beginning 120 days after receipt for most providers; however, the Continuing Appropriations Act, 2021 and Other Extensions Act, enacted October 1, 2020, extended the repayment period such that accelerated payments are interest free for 29 months, and the program currently requires CMS to recoup the payments beginning one year after receipt for most providers, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. In April 2020, the Company received Medicare advances totaling $75.1 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. These amounts were recorded as liabilities in estimated third-party settlements in the consolidated basic statement of net position as of June 30, 2020. During 2021, $7.9 million was repaid and $67.2 million is outstanding, of which $21.2 million was reclassified to other liabilities in the long-term section in the consolidated basic statement of net position as of June 30, 2021, based on extension of the repayment period enacted October 1, 2020, as described above.

- The CARES Act also allowed employers to defer the deposit and payment of the employer’s share of Social Security taxes. The Company deferred nearly $12.5 million prior to the end of the deferral period on December 31, 2020. Half of the deferred amount is due by December 31, 2021, and the remaining half is payable by December 31, 2022. At June 30, 2021, just over $6.2 million is recorded as accrued salaries and leave payable and just over $6.2 million is recorded in other long-term liabilities in the consolidated basic statement of net position.

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

Credit Ratings

The Company's underlying credit rating of BBB- was reaffirmed by Fitch Ratings in December 2020 with a stable outlook. Moody's Investors Service reaffirmed a Baa3 credit rating in June 2021, with a stable outlook.

Consolidated Basic Financial Statements

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statement of Net Position

(Dollars in Thousands)

June 30, 2021

Assets	
Current assets:	
Cash and cash equivalents	$ 131,801
Short-term investments	80,944
Patient accounts receivable, net of allowance for uncollectibles of $81,155	120,938
Due from city and state agencies	8,597
Inventories	18,233
Prepaid expenses and other current assets	11,076
Assets whose use is restricted, current portion	1,740
Total current assets	373,329
Assets whose use is restricted, less current portion	26,016
Capital assets, net	273,371
Investment	15,526
Other assets	23,768
Total assets	712,010
Deferred outflows of resources	
Accumulated decrease in fair value of hedge derivatives	1,204
Deferred other postemployment benefits outflows	920
Deferred pension outflows	1,171
Total deferred outflows of resources	3,295
Liabilities	
Current liabilities:	
Long-term debt, current portion	9,046
Capital lease obligations, current portion	2,869
Finance obligation, current portion	609
Accounts payable and accrued expenses	57,893
Accrued salaries and leave payable	44,241
Estimated third-party payor settlements	52,973
Total current liabilities	167,631
Long-term liabilities:	
Long-term debt, noncurrent portion	207,878
Capital lease obligations, noncurrent portion	5,418
Other liabilities	52,534
Total long-term liabilities	265,830
Total liabilities	433,461
Deferred inflows of resources	
Deferred other postemployment benefits inflows	2,073
Deferred pension inflows	4,484
Total deferred inflows of resources	6,557
Commitments and contingencies	
Net position	
Net investment in capital assets	48,114
Restricted:	
Expendable	5,032
Unrestricted	222,141
Total net position	$ 275,287

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

(Dollars in Thousands)

Year Ended June 30, 2021

Operating revenues	
Net patient service revenue, net of provision for bad debts of $80,267	$ 806,857
Other operating revenue	16,535
Total operating revenues	823,392
Operating expenses	
Salaries and benefits	374,145
Supplies and services	413,688
Depreciation and amortization	33,249
Total operating expenses	821,082
Operating income	2,310
Nonoperating revenues (expenses)	
Interest expense	(7,449)
Grant revenue	42,415
Net investment loss, including change in fair value	(173)
Loss on disposal of capital assets, net	(203)
Other nonoperating gain, net	63
Total nonoperating revenue, net	34,653
Excess of revenues over expenses before capital contributions	36,963
City of Jacksonville capital grant	27,698
Capital contributions, net	305
Increase in net position	64,966
Net position	
Beginning of year	210,321
End of year	$ 275,287

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statement of Cash Flows

(Dollars in Thousands)

Year Ended June 30, 2021

Operating activities	
Cash received from patients and third-party payors	$ 789,983
Other receipts from operations	16,130
Salaries and benefits paid to employees	(360,495)
Payments to suppliers and vendors	(399,059)
Net cash provided by operating activities	46,559
Noncapital financing activities	
Interest paid	(586)
Proceeds from grant	45,699
Payments of long-term debt	(1,023)
Net cash provided by noncapital financing activities	44,090
Capital and related financing activities	
Payments for capital assets	(50,298)
Proceeds from sale of capital assets	121
Payments of long-term debt and capital lease obligations	(11,131)
Payments of other capital borrowings	(478)
Interest paid	(7,329)
City of Jacksonville capital grant	24,849
Capital contributions	305
Net cash used in capital and related financing activities	(43,961)
Investing activities	
Investment income received	2,652
Purchase of short-term investments and assets whose use is restricted, net	(49,747)
Net cash used in investing activities	(47,095)
Net decrease in cash and cash equivalents	(407)
Cash and cash equivalents	
Beginning of year	132,208
End of year	$ 131,801

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statement of Cash Flows (continued)

(Dollars in Thousands)

Reconciliation of operating income to net cash provided by operating activities		
Operating income	$	2,310
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		33,249
Provision for bad debts		80,267
Changes in:		
Patient accounts receivable		(94,774)
Prepaid expenses, inventories and other current assets		(122)
Other assets		768
Accounts payable and accrued expenses		25,990
Estimated third-party payor settlements		(2,366)
Other liabilities		1,237
Total adjustments		44,249
Net cash provided by operating activities	$	46,559
Disclosure of supplemental cash flow information		
Capital assets purchased through capital lease obligations and other borrowings	$	5,837
Net decrease in fair value of investments		(2,811)
Net change in fair value of nonhedged derivatives and other nonoperating gains		63
Loss related to undepreciated costs on capital asset disposals		390
Accrued purchases of property and equipment		3,463

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

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. ("SJF") and Shands Jacksonville Community Services, Inc. ("SJCS") are affiliated with the Company but are not a part of the Obligated Group.

Effective October 1, 2019, SJCS became a member of Jacksonville Medical Office Building, LLC ("JMOB LLC") by acquiring 3,459 Class A membership units, or 34.59% of total Class A units, in exchange for its participation in a no-cost ownership program offered by the developer of a medical office building in north Jacksonville, Florida, Landmark Healthcare Facilities LLC ("Landmark"), in which SJCS leases space. The Company did not provide anything of value to the JMOB LLC or Landmark in exchange for the membership units. Class A membership units have no power to influence the JMOB LLC. As a result, the Company accounted for this transaction as a voluntary non-exchange transaction, recognizing $15.5 million, the fair value of the ownership interest, as voluntary non-exchange revenue in the consolidated basic statement of revenues, expenses and changes in net position for the year ended June 30, 2020, and recognizing a corresponding investment in the statement of net position as of June 30, 2020. The value of this investment balance is unchanged as of June 30, 2021.

Effective July 2, 2019, a consolidated affiliate became a member of Yulee Medical Office Building, LLC ("YMOB LLC") by acquiring 500 Class A membership units, or 50% of total Class A units, in exchange for its participation in a no-cost ownership program offered by the developer, Landmark, of a medical office building in north Jacksonville, Florida, in which SJCS leases space, effective on the commencement date of September 1, 2020. Class A membership units have no power to influence the YMOB LLC. Through this agreement, consolidated affiliates of the

1. Organization (continued)

Company became a tenant in the building as well as a partial owner of the entity that legally owns the building, YMOB LLC. The Company was deemed to be the owner of the building during the construction period under the accounting rules and, accordingly, has recorded the building cost in capital assets, net and corresponding financing in finance obligation, current portion and other liabilities in the consolidated basic statement of net position as of June 30, 2021, though the Company neither has title to YMOB LLC nor responsibility for the debt related to the construction of it.

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, 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.

2. Summary of Significant Accounting Policies (continued)

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.

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 or, in the case of the Florida Treasury Investment Pool Special Purpose Investment Account, net asset 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 statement 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 comprising 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.

2. Summary of Significant Accounting Policies (continued)

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

	Estimated Useful Lives (Years)
Buildings	5–40
Leasehold improvements	5–15
Movable equipment	3–20

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

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 $1,072,000 of net unamortized original premiums for the Series 2015 and 2013A Bonds at June 30, 2021, which will be amortized over the remaining periods of the obligations using the effective interest method.

2. Summary of Significant Accounting Policies (continued)

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 statement of net position, but rather separately reported.

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 $19,795,000 as of June 30, 2021, and is included in accrued salaries and leave payable in the accompanying consolidated basic statement 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.

2. Summary of Significant Accounting Policies (continued)

Long-Term Debt

Long-term debt comprises 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 has restrictions placed on its use through external constraints imposed by contributors. Unrestricted does not meet the definition of net investment in capital assets and has no third-party restrictions on use.

Revenues and Expenses

The Company’s consolidated basic statement of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Company’s principal activity. Operating expenses are all expenses incurred to provide health care services. Net investment income, interest expense, non-exchange grants, voluntary non-exchange transactions and gain (loss) on disposal of assets are reported as nonoperating revenues (expenses). Grants and donations received for the purpose of acquiring or constructing capital assets are recorded below nonoperating revenues (expenses) as City of Jacksonville capital grant or capital contributions, net, respectively.

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

2. Summary of Significant Accounting Policies (continued)

considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. For the year ended June 30, 2021, net patient service revenue increased by approximately $3,380,000 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 statement 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 28% of the Company's net patient service revenue for the year ended June 30, 2021, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system, 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, 2021, Medicare cost reports through June 30, 2010, and for fiscal years ended June 30, 2015, June 30, 2016 and June 30, 2017, 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 comprises several

2. Summary of Significant Accounting Policies (continued)

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 9% of the Company's net patient service revenue for the year ended June 30, 2021, was derived from services to Medicaid beneficiaries. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed at prospectively determined rates based upon Enhanced Ambulatory Patient Groupings ("EAPGs"). Prior to July 1, 2017, outpatient services were reimbursed based upon a cost reimbursement methodology subject to certain ceilings.

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 statement of revenues, expenses and changes in net position. As of June 30, 2021, the Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2018.

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.

2. Summary of Significant Accounting Policies (continued)

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 year ended June 30, 2021.

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 is 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 a liability with a corresponding deferred outflow or inflow in the accompanying consolidated basic statement 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 statement of revenues, expenses and changes in net position.

Recent Accounting Pronouncements

In May 2020, the GASB issued GASB Statement No. 95*, Postponement of the Effective Dates of Certain Authoritative Guidance* (“GASB No. 95”). GASB No. 95 provides temporary relief to governments, in light of a global pandemic brought about by the emergence of a novel coronavirus (“COVID-19”), by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were effective for reporting periods or fiscal years beginning after June 15, 2018. This includes postponing the effective date of the following: GASB Statement No. 84, *Fiduciary Activities*; GASB Statement No. 87; *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and*

2. Summary of Significant Accounting Policies (continued)

No. 61; GASB Statement No. 91, *Conduit Debt Obligations*; certain provisions of GASB Statement No. 92, *Omnibus 2020*; and certain provisions of GASB Statement No. 93, *Replacement of Interbank Offered Rates*. GASB No. 95 was effective immediately upon its issuance.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* ("GASB No. 84"). The principal objective of GASB No. 84 is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. The effective date was amended by GASB No. 95 to be for reporting periods beginning after December 15, 2019. The Company adopted GASB No. 84 as of July 1, 2020. The adoption of this statement did not have a material impact on the consolidated basic financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB No. 87"). GASB No. 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB No. 87 will require a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The effective date was amended by GASB No. 95 to be for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The Company is currently evaluating the impact GASB No. 87 will have on its consolidated basic financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61* ("GASB No. 90"). The primary objective of GASB No. 90 is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The effective date was amended by GASB No. 95 to be for reporting periods beginning after December 15, 2019. The adoption of this statement did not have a material impact to the consolidated basic financial statements.

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

2. Summary of Significant Accounting Policies (continued)

In January 2020, the GASB issued GASB Statement No. 92, *Omnibus 2020* (“GASB No. 92”). GASB No. 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-equity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activities of public equity risk pools, fair value measurements and derivative instruments. The effective date of paragraphs 6 and 7 of GASB No. 92, as amended by GASB No. 95, will be for fiscal years beginning after June 15, 2021. The effective date of paragraphs 8, 9, 10 and 12 of GASB No. 92, as amended by GASB No. 95, will be for reporting periods beginning after June 15, 2021. The effective date of all remaining provisions of GASB No. 92 will be for reporting periods beginning after June 15, 2020. The Company is currently evaluating the impact paragraphs 6-10 and 12 of GASB No. 92 will have on its consolidated basic financial statements. The Company adopted all of the remaining provisions of GASB No. 92 as of July 1, 2020. The adoption of the statement did not have a material impact on the consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates* (“GASB No. 93”). GASB No. 93 establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (“IBOR”)-most notably, the London Interbank Offered Rate (“LIBOR”), in hedging derivative instruments and leases and identifies appropriate benchmark interest rates for hedging derivative instruments. LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. The effective date of paragraphs 13 and 14 of GASB No. 93, as amended by GASB No. 95, will be for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The effective date of all other provisions of GASB No. 93 will be for reporting periods beginning after June 15, 2020. The Company is currently evaluating the impact paragraphs 13 and 14 of GASB No. 93 will have on its consolidated basic financial statements. The Company adopted all of the remaining provisions of GASB No. 93 as of July 1, 2020. The adoption of the statement did not have a material impact on the consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 94*, Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (“GASB No. 94”). The primary objective of GASB No. 94 is to improve financial reporting and address certain issues related to public-private and public-public partnership arrangements (“PPP”) and to provide guidance for

2. Summary of Significant Accounting Policies (continued)

accounting and financial reporting for availability payment arrangements ("APA"). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. GASB No. 94 is effective for fiscal years beginning after June 15, 2022. The Company is currently evaluating the impact GASB No. 94 will have on its consolidated basic financial statements.

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

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

3. Unsponsored Community Benefit

Community benefit is a planned, managed, organized and measured approach to a health care organization's participation in meeting identified community health needs. It 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 year ended June 30, 2021, were approximately $339,194,000.

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.

3. Unsponsored Community Benefit (continued)

The Company's valuation of unsponsored community benefits at estimated cost for the year ended June 30, 2021, is as follows:

	2021
	(Dollars in Thousands)
Financial assistance provided	$ 66,618
Government support applied to charity care	(30,276)
Net unreimbursed financial assistance	36,342
Benefits for the broader community:	
Community health services	377
Health professions education	24,910
Total quantifiable benefits for the broader community	25,287
Total community benefits	$ 61,629

The estimated cost of financial assistance provided was determined by applying the Company's overall expense to charge ratio to total charges forgone. 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 health care 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 statement of net position as follows at June 30, 2021:

	2021
	(Dollars in Thousands)
Current assets:	
Cash and cash equivalents	$ 131,801
Short-term investments	80,944
Assets whose use is restricted, current portion	1,740
	214,485
Long-term assets:	
Assets whose use is restricted, less current portion	26,016
Investment in JMOB LLC	15,526
	$ 256,027

The composition of cash, cash equivalents, investments and assets whose use is restricted at June 30, 2021, is as follows:

	Market Value	Investment Maturities: Less Than 1 Year	1–3 Years	N/A
		(Dollars in Thousands)		
2021				
Certificates of deposit	$ 6,517	$ 6,517	$ –	$ –
Florida Treasury Investment Pool ("SPIA")	100,119	–	100,119	–
Money market funds	3,173	–	–	3,173
Investment in JMOB LLC	15,526	–	–	15,526
Bank deposits	130,692	–	–	130,692
	$ 256,027	$ 6,517	$ 100,119	$ 149,391

4. Cash, Cash Equivalents, Investments and Assets Whose Use Is Restricted (continued)

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 comprises the following at June 30, 2021:

	2021
	(Dollars in Thousands)
Internally designated by the Board of Directors for clinical support, education, research and other health programs	$ 19,500
Debt service reserve funds	6,516
Held by bank as collateral for interest rate swaps	1,740
	27,756
Less current portion	(1,740)
Long-term portion	$ 26,016

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 an 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.

4. Cash, Cash Equivalents, Investments and Assets Whose Use Is Restricted (continued)

The credit risk profile of the Company's investments and assets whose use is restricted as of June 30, 2021, is as follows:

	Fair Value	AAA	Ratings A-1+/P-1	AA-f
		(Dollars in Thousands)		
2021				
Certificates of deposit	$ 6,517	$ –	$ 6,517	$ –
Florida Treasury Investment Pool ("SPIA")	100,119	–	–	100,119
Money market funds	3,173	3,173	–	–
	$ 109,809	$ 3,173	$ 6,517	$ 100,119

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

Custodial Credit Risk

As of June 30, 2021, 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.

4. Cash, Cash Equivalents, Investments and Assets Whose Use Is Restricted (continued)

Investment loss, net for fiscal year 2021 is as follows:

	2021 *(Dollars in Thousands)*
Dividends and interest income	$ 2,638
Net decrease in the fair value of investments	(2,811)
Investment loss, net	$ (173)

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).

5. Fair Value (continued)

The recurring fair value measurement of investments at June 30, 2021 is as follows:

	2021 Fair Value *(Dollars in Thousands)*
Investment in JMOB LLC	$ 15,526
Investments measured at the net asset value (NAV):	
Florida Treasury Investment Pool (SPIA)	100,119
Total investments measured at the NAV	115,645
Other:	
Money market funds and certificates of deposit	9,690
Cash collateral on deposit with swap counterparty	1,740
	$ 127,075

JMOB LLC membership interest is recorded at fair value and is classified in Level 2 of the fair value hierarchy.

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

6. Capital Assets

A summary of changes in capital assets during fiscal year 2021 is as follows:

	Balance at June 30, 2020	Additions	Deletions	Transfers	Balance at June 30, 2021
	(Dollars in Thousands)				
Land	$ 24,198	$ –	$ –	$ –	$ 24,198
Buildings and leasehold improvements	396,265	–	–	38,054	434,319
Equipment	295,794	–	(1,908)	16,362	310,248
Totals at historical cost	716,257	–	(1,908)	54,416	768,765
Less accumulated depreciation for:					
Buildings and leasehold improvements	(252,361)	(14,289)	–	–	(266,650)
Equipment	(236,305)	(18,960)	1,822	–	(253,443)
	227,591	(33,249)	(86)	54,416	248,672
Construction-in-progress	20,126	59,530	(278)	(54,679)	24,699
Capital assets, net	$ 247,717	$ 26,281	$ (364)	$ (263)	$ 273,371

Land and construction-in-progress are non-depreciable capital assets. Amortization expense on equipment held under capital lease, which is included within depreciation and amortization expense in the consolidated basic statement of revenues, expenses and changes in net position, was approximately $2,734,000 for the year ended June 30, 2021.

Effective July 2, 2019, the Company, through its affiliates SJF (the "Ground Lessor") and SJCS (the "Building Tenant"), entered into arrangements with YMOB LLC (the "Building Landlord") whereby land owned by the SJF is leased to the Building Landlord for the purposes of constructing an approximately 35,000-square-foot building located in the Wildlight community. Construction began September 2019, and upon its conclusion, the building lease commenced September 1, 2020, with the entirety of the building leased by the Building Landlord to the Building Tenant. The Building Landlord is an LLC created by the developer, Landmark, for the sole purpose of managing the medical office building, its construction and tenancy.

At June 30, 2020, accounting rules required the Company to recognize approximately $10,303,000 in both capital assets, net and in a financing obligation in other liabilities in the consolidated basic statement of net position though the Company neither has title to the building nor responsibility for the debt related to the construction of the YMOB LLC. Upon completion of the construction

6. Capital Assets (continued)

of the building, and subsequent to the commencement of the building lease effective September 1, 2020, the Company recognized total construction costs of $13,980,000. As of June 30, 2021, $13,203,000 million is recorded in capital assets, net.

7. Long-Term Liabilities

Long-term debt comprises the following at June 30, 2021:

	2021
	(Dollars in Thousands)
Health Facilities Tax Exempt Revenue Bonds:	
General Obligation Bonds:	
Series 2013A	$ 56,700
Series 2013B	36,285
	92,985
Direct Placement Bonds:	
Series 2019, UF Health Jacksonville Project	16,638
Series 2015, UF Health Jacksonville Project	8,845
Series 2015	85,000
	110,483
	203,468
Taxable Notes:	
Direct Borrowing Notes:	
2011 Shands Note Payable	12,384
	12,384
Series 2019A, Revolving Line of Credit	–
	215,852
Net unamortized bond premium	1,072
Total long-term debt	216,924
Less long-term debt, current portion	(9,046)
Long-term portion	$ 207,878

7. Long-Term Liabilities (continued)

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

	Balance at June 30, 2020	Additions	Reductions	Balance at June 30, 2021	Amounts Due Within One Year
			(Dollars in Thousands)		
Health Facilities Tax Exempt Revenue Bonds:					
General Obligation Bonds:					
Series 2013A	$ 56,700	$ –	$ –	$ 56,700	$ –
Series 2013B	40,060	–	(3,775)	36,285	3,950
	96,760	–	(3,775)	92,985	3,950
Direct Placement Bonds:					
Series 2019, UF Health Jacksonville Project	18,655	–	(2,017)	16,638	2,017
Series 2015, UF Health Jacksonville Project	10,862	–	(2,017)	8,845	2,074
Series 2015	85,000	–	–	85,000	–
	114,517	–	(4,034)	110,483	4,091
	211,277	–	(7,809)	203,468	8,041
Taxable Notes:					
Direct Borrowing Notes:					
2011 Shands Note Payable	13,407	–	(1,023)	12,384	1,070
	13,407	–	(1,023)	12,384	1,070
Series 2019A, Revolving Line of Credit	–	–	–	–	–
	–	–	–	–	–
	$ 224,684	$ –	$ (8,832)	$ 215,852	$ 9,111

The current portion of net unamortized bond discount was approximately $65,000 as of June 30, 2021.

As of June 30, 2021, the Company recorded approximately $21,190,000 as non-current portion of payments received under the Medicare Accelerated and Advance Payment Program, which is presented within other liabilities on the consolidated basic statement of net position. The full amount is an increase since June 30, 2020, since the Continuing Appropriations Act, 2021 and Other Extensions Act, were enacted October 1, 2020, at which time the repayment period was extended

7. Long-Term Liabilities (continued)

such that a portion of the advanced amount became non-current. Amounts due within one year are approximately $46,069,000 and are presented within estimated third-party payor settlements in the consolidated basic statement of net position, as of June 30, 2021.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020. It allowed employers to defer the deposit and payment of the employer's share of Social Security taxes. The Company deferred approximately $12,478,000 prior to the end of the deferral period on December 31, 2020. Half of the deferred amount is due by December 31, 2021 and the remaining half is payable by December 31, 2022. At June 30, 2021, approximately $6,239,000 is recorded as accrued salaries and leave payable and approximately $6,239,000 is recorded in other long-term liabilities in the consolidated basic statement of net position, which is an increase of approximately $2,715,000 over June 30, 2020.

Although the Company neither has title to YMOB LLC nor responsibility for the debt related to the construction of it, as of June 30, 2021, the Company has approximately $609,000 recorded as finance obligation, current portion and approximately $12,893,000 recorded as a finance obligation in other liabilities in the consolidated basic statement of net position, which is an increase of approximately $2,589,000 since June 30, 2020.

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

	General Obligation Bonds		Direct Placement/Borrowing Bonds & Notes		Revolving Line Of Credit		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
				(Dollars in Thousands)				
Year ending June 30:								
2022	$ 3,950	$ 3,731	$ 5,161	$ 5,355	$ –	$ –	$ 9,111	$ 9,086
2023	4,125	3,680	5,268	5,250	–	–	9,393	8,930
2024	6,455	3,583	5,381	5,141	–	–	11,836	8,724
2025	6,755	3,417	5,684	5,027	–	–	12,439	8,444
2026	7,085	3,241	5,581	4,916	–	–	12,666	8,157
2027-2031	24,615	13,156	26,442	21,325	–	–	51,057	34,481
2032-2036	40,000	3,800	17,265	16,484	–	–	57,265	20,284
2037-2041	–	–	22,300	11,451	–	–	22,300	11,451
2042-2046	–	–	29,785	4,563	–	–	29,785	4,563
	$ 92,985	$ 34,608	$ 122,867	$ 79,512	$ –	$ –	$ 215,852	$ 114,120

Cash paid for interest was approximately $7,915,000 for the year ended June 30, 2021.

7. Long-Term Liabilities (continued)

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 2019 Healthcare Facilities Revenue Bonds

On September 20, 2019, the Company closed on the $20 million tax exempt issuance of Florida Development Finance Corporation ("FDFC"), Florida Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project), Series 2019, which mature on September 1, 2029. The proceeds were used for financing and refinancing and as reimbursement for costs of certain capital equipment and improvements and paying for certain costs associated with the issuance of the bonds.

Series 2019A Revolving Line of Credit

On September 20, 2019, the Company entered into an interest only $10 million Revolving Line of Credit, Series 2019A. The full $10 million was requested on November 18, 2019, and repaid on February 4, 2020. On December 8, 2020, the line of credit was extended from maturing on September 18, 2020, to final maturity, unless extended, on September 18, 2022. At June 30, 2021, the line of credit is unused and no balance is due.

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 mature on February 1, 2045. The proceeds of this debt will be used for financing and 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.

7. Long-Term Liabilities (continued)

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 mature 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 2013A and 2013B Healthcare Facilities Revenue Bonds

On November 21, 2013, FDFC issued Healthcare Facilities Revenue Bonds ("Series 2013 A and B Bonds") on behalf of SJMC. Series 2013A Bonds, for approximately $64.2 million, comprise 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.

Debt Covenants

The Company's Obligated Group is subject to certain restrictive covenants. The Revolving Line of Credit and direct placement bond Series 2015 and Series 2019, UF Health Jacksonville 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, 2021, 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. The Company was in compliance with these covenants as of June 30, 2021.

8. Interest Rate Swaps

On June 30, 2021, the Company had the following derivative instruments outstanding, which are recorded in other liabilities in the accompanying consolidated basic statement of net position:

Type	Objective	Company Notional Amount	Counterparty Notional Amount	Effective Date	Maturity Date	Terms	2021 Fair Value
				(Dollars in Thousands)			
Fixed rate payer rate swap	Hedge changes in interest rate	$ –	$ –	1/30/2004	2/1/2021	Receive 67% of USD-LIBOR-BBA, Pay Fixed 3.337%	$ –
Fixed rate payer interest rate swap	Hedge changes in interest rate	8,844	8,844	6/29/2015	6/30/2025	Receive 65% of USD-LIBOR-BBA + 120 basis point spread, Pay Fixed 2.7350%	(228)
Fixed rate payer interest rate swap	Hedge changes in interest rate	16,639	16,639	9/20/2019	9/4/2029	Receive 79% of USD-LIBOR-BBA + 133 basis point spread, Pay Fixed 2.705%	(474)
Total return interest rate swap	Hedge costs of borrowing	87,268	85,000	12/10/2015	12/10/2023	Receive Fixed 5.25%, Pay USD SIFMA - 175 basis point spread	(502)
							$ (1,204)

8. Interest Rate Swaps (continued)

The Company and Counterparty Notional Amounts represent the notional amounts as of June 30, 2021, unless otherwise noted. The Company and Counterparty Notional Amount for the 2021 maturity date fixed rate payer swap is $0 as of June 30, 2021, as it matured on February 1, 2021.

The fair value of the nonhedged interest rate swap that matured February 1, 2021, was 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 statement of revenues, expenses and changes in net position. The changes in fair value of the hedged $8,844,000, $16,639,000 and $85,000,000 interest rate swaps amount to approximately $1,265,000 and are reported as accumulated decrease in fair value of hedge derivatives in the accompanying consolidated basic statement of net position and is estimated using the zero-coupon method.

Credit Risk

The Company has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2021, the credit ratings from various credit rating agencies for Merrill Lynch Capital Services, Inc., the swap counterparty for the $85,000,000 swap, are AA-/A2/A- at June 30, 2021. The credit ratings from various credit rating agencies for the $8,844,000 and $16,639,000 swaps are A-/A3/A- at June 30, 2021.

Interest Rate Risk

The Company is not exposed to interest rate risk on its fixed rate payer interest rate swaps that 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.

8. Interest Rate Swaps (continued)

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. The collateral balance was approximately $1,740,000 at June 30, 2021.

9. Employee Benefit Plans

Defined Contribution Plan

SJMC has a defined contribution plan that 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 $12,173,000 for the year ended June 30, 2021.

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

Plan Description

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

9. Employee Benefit Plans (continued)

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

Benefits Provided

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

Benefit terms provide for annual cost-of-living adjustments to retired participants and beneficiaries of participants. Benefit payments are adjusted each October 1 following benefit commencement to reflect the changes in the Consumer Price Index for the 12 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, 2020, the measurement date for the pension liability, the following employees were covered by the benefit terms (participant data as of July 1, 2019):

Active	5
Retired	74
Terminated vested	487
	566

9. Employee Benefit Plans (continued)

Contributions

The Plan Sponsor's funding policy is for the Company and Shands 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 and Shands may contribute an amount above the required contribution. The Company's contributions of approximately $622,000 for the year ended June 30, 2021, exceed the minimum funding requirements of ERISA.

Net Pension Asset

The Company's proportionate share of the net pension asset as of June 30, 2021, was approximately $7,881,000 and was based on a measurement date of June 30, 2020 and is included in other assets in the accompanying consolidated basic statement of net position. The total pension liability used to calculate the net pension asset as of June 30, 2020, was determined based on the results of an actuarial valuation as of July 1, 2019, projected forward to June 30, 2020, using standard actuarial techniques. The Company's proportionate share of the net pension asset was developed by calculating the pension liability for the Company and Shands based on the individual participant data as actuarially determined and the plan fiduciary net position was calculated by the timing and amounts of actual contributions and benefit payments made by the Company and Shands and an allocation of the investment return and administrative expenses based on the weighted average market value of plan assets. At June 30, 2021, the Company's proportion was 6.8%, which was an increase of 2.3% from its proportion reported as of June 30, 2020.

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

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

- Salary increases: Not applicable

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

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

9. Employee Benefit Plans (continued)

- Mortality rates were based upon the Pri-2012 blue collar base mortality rates published by the Society of Actuaries with future improvements in mortality using the Mercer Modified Scale MMP-2019 applied on a generational basis.
- The actuarial assumptions used in the July 1, 2019, 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	Long-Term Expected Real Rate of Return
Global equity	52.8 %	6.27%
Long credit fixed income	37.2 %	1.68%
High yield fixed income	8.0 %	3.04%
Private equity	2.0 %	10.05%
Total	100.0 %	

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

9. Employee Benefit Plans (continued)

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

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

	1% Decrease (5.10%)	Current Discount Rate (6.10%)	1% Increase (7.10%)
	(Dollars in Thousands)		
Proportionate share of net pension asset	$ 3,415	$ 7,881	$ 11,791

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

The Company recognized a reduction of pension expense of approximately $1,266,000 for the year ended June 30, 2021. At June 30, 2021, the Company reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(Dollars in Thousands)	
Differences between expected and actual experience	$ 88	$ 1,058
Changes of assumptions	461	1,229
Net differences between projected and actual earnings on pension plan investments	–	2,197
Contributions made during the year ended June 30, 2021, not yet recognized in net fiduciary position	622	–
	$ 1,171	$ 4,484

9. Employee Benefit Plans (continued)

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

	(Dollars in Thousands)
Year ending:	
2022	$ 2,251
2023	1,175
2024	498
2025	11
Thereafter	–

Fair Value Measurements

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

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

9. Employee Benefit Plans (continued)

Credit Risk

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

Interest Rate Risk

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

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

9. Employee Benefit Plans (continued)

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

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

Concentration of Credit Risk

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

Custodial Risk

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

9. Employee Benefit Plans (continued)

Foreign Currency Risk

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

The Plan's exposure to currency risk is as follows:

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

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.

10. Other Postemployment Benefits (continued)

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.

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 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.

10. Other Postemployment Benefits (continued)

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 Company's expected 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 1 grandfathered retiree eligible for post-65 coverage who has no contribution increases.

Retiree dental contribution increases are based on the dental annual rates of increases and health care 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, 2020. There are no significant changes known that would impact the total postemployment liability between the measurement date and the reporting date, other than typical plan experience.

10. Other Postemployment Benefits (continued)

For purposes of the July 1, 2020, measurement date, the number of plan participants consisted of the following:

	Medical	Dental
Participant data as of July 1, 2020:		
Retirees	13	199
Spouses	3	48
Surviving spouses	–	–
	16	247

As of July 1, 2020, there were 301 fully eligible active employees and 4,576 active but not fully eligible employees.

Changes in the total reported liability for postemployment benefits obligations for the year ended June 30, 2021, are summarized as follows:

	2021
	(Dollars in Thousands)
Balance, beginning of year	$ 5,121
Changes for the year:	
Service cost	226
Interest	175
Change in benefit terms	–
Difference between expected and actual experience	171
Changes of assumptions	(1,104)
Benefit payments	(250)
Net changes	(782)
Balances, end of year	$ 4,339

10. Other Postemployment Benefits (continued)

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

- 2.21% per annum for the July 1, 2020, measurement date

Medical health care cost trend rates

- Initial/ultimate 5.7%/4.5% increases for the July 1, 2020, measurement date

Dental health care cost trend rates

- Initial/ultimate 4.7%/4.5% increases for the July 1, 2020, measurement date

Mortality was based on the Pri-2012 blue collar mortality with separate employee, retiree and contingent survivor tables. The MMP-2019 projection scale was applied on a generational basis.

Sensitivity of the Other Postemployment Benefits Liability to the Changes in the Health Care Cost Trend Rates

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

	1% Decrease	Current Trend	1% Increase
	(Dollars in Thousands)		
Other postemployment benefit liability	$ 4,050	$ 4,339	$ 4,672

10. Other Postemployment Benefits (continued)

Sensitivity of the 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 2.21% and the effect on the liability of using a discount rate that is 1 percentage point lower (1.21%) and 1 percentage point higher (3.21%).

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
	(Dollars in Thousands)		
Other postemployment benefit liability	$ 4,703	$ 4,339	$ 4,029

The components of postemployment benefits expense for the year ended June 30, 2021, are summarized as follows *(Dollars in Thousands)*:

Service cost	$ 226
Interest	175
Change in benefit terms	–
Amortization of differences between expected and actual experience	2
Amortization of changes of assumptions	(128)
Total other postemployment benefits expense	$ 275

10. Other Postemployment Benefits (continued)

Deferred outflows of resources and deferred inflows of resources related to postemployment benefits obligations at June 30, 2021, are summarized as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(Dollars in Thousands)	
Differences between expected and actual experience	$ 210	$ 55
Changes of assumptions	478	2,018
Contributions made during the year ended June 30, 2021, not yet recognized in net fiduciary position	232	–
Total	$ 920	$ 2,073

Deferred outflows of resources and inflows of resources related to changes in assumptions and the difference between expected and actual plan experience will reduce expense in the following years ended June 30 *(Dollars in Thousands)*:

Year ending:	
2022	$ 168
2023	394
2024	488
2025	284
Thereafter	51

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.

The following is a schedule, by year, of future minimum lease payments under noncancelable operating leases as of June 30, 2021 *(Dollars in Thousands)*:

Year ending:	
2022	$ 17,607
2023	14,586
2024	12,169
2025	11,617
2026	11,130
2027–2031	36,346
Thereafter	11,947
Total minimum lease payments	$ 115,402

Rent expense related to operating leases for the year ended June 30, 2021, was approximately $18,087,000.

Total gross assets under capital leases included in capital assets were approximately $18,518,000 at June 30, 2021. Accumulated amortization on capital leases at June 30, 2021, was approximately $10,539,000.

11. Commitments and Contingencies (continued)

Future capital lease payments are as follows *(Dollars in Thousands)*:

Year ending:		
2022	$	3,003
2023		1,215
2024		1,099
2025		1,033
2026		924
Thereafter		1,386
Total minimum lease payments		8,660
Less amount representing interest		(373)
Present value of net minimum lease payments	$	8,287

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 are $3,463,000, which includes retainage of $1,886,000 at June 30, 2021.

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 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.

11. Commitments and Contingencies (continued)

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 its financial position.

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 year ended June 30, 2021, were approximately $36,163,000.

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 year ended June 30, 2021, was approximately $565,000.

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

11. Commitments and Contingencies (continued)

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 its consolidated basic financial statements.

In addition, the Affordable Care Act requires organizations that 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 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.

The Company believes that the liability recorded in estimated third-party payor settlements on the consolidated basic statement 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

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 $5,028,000 for the year ended June 30, 2021. At June 30, 2021, the Company owed Shands approximately $425,000.

12. Transactions With Related Parties (continued)

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 $77,875,000 for the year ended June 30, 2021, of which approximately $39,388,000 are expenditures in support of UF and its medical programs included as supplies and services in the accompanying consolidated basic statement of revenue, expenses and changes in net position. At June 30, 2021, payables related to this arrangement amounted to approximately $509,000 and are included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

At June 30, 2021, the Company has a note payable ("2011 Shands Note Payable") of approximately $12,384,000 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 $1,070,000 is included within long-term debt, current portion, and the long-term portion of the note payable of approximately $11,314,000 is included within long-term debt, noncurrent portion, at June 30, 2021, in the accompanying consolidated basic statement of net position.

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:

	2021
Medicare	24%
Medicaid	14%
Managed Care	27%
Other payors	35%
	100%

13. Concentrations of Credit Risk (continued)

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. COVID-19 Pandemic

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

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills that provided certain financial benefits to the Company. Principal among these was the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted on March 27, 2020. The CARES Act authorized $100 billion in direct funding to hospitals and other health care providers from the Provider Relief Fund, and provided other financial benefits, including the expansion of the Medicare Accelerated and Advance Payment Program. Under the CARES Act in fiscal year 2020, the Company received approximately $15,642,000 as part of general distributions from the Provider Relief Funds. In fiscal year 2021, the Company received an additional approximately $45,775,000 as part of the general and skilled nursing facility distributions from the Provider Relief Fund. The Company recorded approximately $42,415,000 as grant revenue in the consolidated basic statement of revenues, expenses and changes in net position and approximately $3,360,000 as other liabilities in the consolidated basic statement of net position. The Company also received approximately $75,136,000 as part of the expanded Medicare Accelerated and Advance Payment Program under the CARES Act, which

14. COVID-19 Pandemic (continued)

was recorded as liabilities in estimated third-party settlements in the consolidated basic statement of net position as of June 30, 2020. During 2021, the Company repaid approximately $7,877,000 of Medicare advances. Based on the revised repayment terms, management estimates that as of June 30, 2021, approximately $46,069,000 is expected to be repaid within one year and, as such, is recorded in estimated third-party settlements and included in current liabilities in the consolidated basic statement of net position. The remaining balance of approximately $21,190,000 is recorded as other liabilities and is included in long-term liabilities in the consolidated basic statement of net position.

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

15. Subsequent Events

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

Required Supplementary Information

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

June 30, 2014 Through June 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
				(In Thousands of Dollars)				
Proportion of the net pension (asset) liability	6.8%	4.5%	1.2%	0.5%	15.2%	14.5%	4.0%	11.5%
Proportionate share of the net pension (asset) liability	$ (7,881)	$ (5,537)	$ (278)	$ (227)	$ 6,414	$ 6,092	$ (2,274)	$ 5,690
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate share of the net pension (asset) liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	113.6%	109.0%	100.4%	100.3%	90.8%	92.0%	103.2%	92.1%

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

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

Changes in assumptions 2021:
The investment return assumption was decreased from 6.75% to 6.10% to reflect the updated capital market outlook.
The mortality tables were updated from Pri-2012 no collar tables to Pri-2012 blue collar tables.
The mortality projection scale assumption was updated from Mercer Modified Projection-2018 to Mercer Modified Projection-2019.

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

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

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

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

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

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Schedule of Employer Contributions (Unaudited)

July 1, 2014 Through June 30, 2021

Schedule of Employer Contributions

	2021	2020	2019	2018	2017	2016	2015	2014
				(Dollars in Thousands)				
Actuarially determined contribution	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Contributions in relation to the actuarially determined contribution	622	965	1,333	2,017	2,071	1,241	1,408	2,349
Contribution excess	$ (622)	$ (965)	$ (1,333)	$ (2,017)	$ (2,071)	$ (1,241)	$ (1,408)	$ (2,349)

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:

	2021	2020	2019	2018	2017	2016	2015
Valuation date	July 1, 2020	July 1, 2019	July 1, 2018	July 1, 2017	July 1, 2016	July 1, 2015	July 1, 2014
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit	Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Asset valuation method	2-year smoothing	2-year smoothing	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%	2.00%	2.50%	2.50%
Discount rates	PPA segmented yield curve rate of 3.64% for the first 5 years, 5.21% for the next 15 years and 5.94% thereafter	PPA segmented yield curve rate of 3.74% for the first 5 years, 5.35% for the next 15 years and 6.11% 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	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	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age
Mortality	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the IRS methodology and projection scale MP-2018.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2000 mortality tables, tables, with improvements beyond 2006 removed with static mortality improvements based on the IRS methodology and projection scale MP-2017.	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.

Other information:
Benefit accruals under the plan were frozen effective July 1, 2013.

Supplementary Consolidating Information

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidating Basic Statement of Net Position

June 30, 2021

	Shands Jacksonville Medical Center Obligated Group [1]	Other	Eliminations	Consolidated Total
		(Dollars in Thousands)		
Assets				
Current assets:				
Cash and cash equivalents	$ 129,932	$ 1,869	$ –	$ 131,801
Short-term investments	80,944	–	–	80,944
Patient accounts receivable, net	120,938	–	–	120,938
Due from city and state agencies	8,597	–	–	8,597
Inventories	18,233	–	–	18,233
Prepaid expenses and other current assets	61,138	14,025	(64,087)	11,076
Assets whose use is restricted, current portion	1,740	–	–	1,740
Total current assets	421,522	15,894	(64,087)	373,329
Assets whose use is restricted, less current portion	26,016	–	–	26,016
Capital assets, net	240,355	33,016	–	273,371
Investment	–	15,526	–	15,526
Other assets	21,570	2,198	–	23,768
Total assets	709,463	66,634	(64,087)	712,010
Deferred outflows of resources				
Accumulated decrease in fair value of hedge derivatives	1,204	–	–	1,204
Deferred other postemployment benefits outflows	920	–	–	920
Deferred pension outflows	1,171	–	–	1,171
Total deferred outflows of resources	3,295	–	–	3,295
Liabilities				
Current liabilities:				
Long-term debt, current portion	9,046	–	–	9,046
Capital lease obligations, current portion	2,869	–	–	2,869
Finance obligation, current portion	–	609	–	609
Accounts payable and accrued expenses	77,891	44,089	(64,087)	57,893
Accrued salaries and leave payable	44,241	–	–	44,241
Estimated third-party payor settlements	52,973	–	–	52,973
Total current liabilities	187,020	44,698	(64,087)	167,631
Long-term liabilities:				
Long-term debt, noncurrent portion	207,878	–	–	207,878
Capital lease obligations, noncurrent portion	5,418	–	–	5,418
Other liabilities	39,639	12,895	–	52,534
Total long-term liabilities	252,935	12,895	–	265,830
Total liabilities	439,955	57,593	(64,087)	433,461
Deferred inflows of resources				
Deferred other postemployment benefits inflows	2,073	–	–	2,073
Deferred pension inflows	4,484	–	–	4,484
Total deferred inflows of resources	6,557	–	–	6,557
Commitments and contingencies				
Net position				
Net investment in capital assets	28,600	19,514	–	48,114
Restricted:				
Expendable	3,770	1,262	–	5,032
Unrestricted	233,876	(11,735)	–	222,141
Total net position	$ 266,246	$ 9,041	$ –	$ 275,287

[1] Per the Master Trust Indenture dated June 1, 2013, the Obligated Group comprises Shands Jacksonville HealthCare, Inc.; Shands Jacksonville Medical Center, Inc.; and Shands Jacksonville Properties, Inc.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidating Basic Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2021

	Shands Jacksonville Medical Center Obligated Group [1]	Other	Eliminations	Consolidated Total
		(Dollars in Thousands)		
Operating revenues				
Net patient service revenue, net of provision for bad debts of $80,267	$ 806,857	$ –	$ –	$ 806,857
Other operating revenue	15,378	1,575	(418)	16,535
Total operating revenues	822,235	1,575	(418)	823,392
Operating expenses				
Salaries and benefits	374,145	–	–	374,145
Supplies and services	413,086	1,020	(418)	413,688
Depreciation and amortization	31,849	1,400	–	33,249
Total operating expenses	819,080	2,420	(418)	821,082
Operating income	3,155	(845)	–	2,310
Nonoperating revenues (expenses)				
Interest expense	(7,100)	(349)	–	(7,449)
Grant revenue	42,415	–	–	42,415
Voluntary non-exchange transaction	–	–	–	–
Net investment loss, including change in fair value	(173)	–	–	(173)
Loss on disposal of capital assets, net	(203)	–	–	(203)
Other nonoperating gain, net	63	–	–	63
Total nonoperating revenue, net	35,002	(349)	–	34,653
Excess of revenues over expenses before capital contributions	38,157	(1,194)	–	36,963
City of Jacksonville capital grant	27,698	–	–	27,698
Capital contributions, net	404	(99)	–	305
Increase in net position	66,259	(1,293)	–	64,966
Net position				
Beginning of year	199,987	10,334	–	210,321
End of year	$ 266,246	$ 9,041	$ –	$ 275,287

[1] Per the Master Trust Indenture dated June 1, 2013, the Obligated Group comprises Shands Jacksonville HealthCare, Inc.; Shands Jacksonville Medical Center, Inc.; and Shands Jacksonville Properties, Inc.

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

Accompanying Internal Control Over Financial Reporting and Compliance Report

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

The Board of Directors
Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

September 21, 2021

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