

CONSOLIDATED BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
SUPPLEMENTAL CONSOLIDATING INFORMATION

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Year Ended June 30, 2023
With Reports of Independent Auditors

Ernst & Young LLP



Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Year Ended June 30, 2023

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Ernst & Young LLP
One Tampa City Center
Suite 2400
201 North Franklin Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

Report of Independent Auditors

Management and the Board of Directors
Shands Jacksonville HealthCare, Inc.

Report on the Audit of the Financial Statements

Opinion

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 fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (unaudited) on pages 4 through 19, the schedule of the Company's proportionate share of the net pension (asset) liability (unaudited) on page 70 and the

schedule of employer contributions (unaudited) on page 73 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Company's financial statements. The supplementary consolidating information on pages 75 through 78 is presented for purposes of additional analysis and is not required to be part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary consolidating information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst & Young LLP

September 26, 2023

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2023

Introduction

Below is Shands Jacksonville HealthCare, Inc. and Subsidiaries' ("SJH" or the "Company") analysis of its financial performance for the fiscal year ended June 30, 2023, with comparative information as of and for the fiscal year ended June 30, 2022. 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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. On March 31, 2022, the Company broke ground on a second bed tower (commonly referred to as "North Phase III"), which will add 124 beds and is expected to be completed in 2024.

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, 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 fiscal year ended June 30, 2020 and recognizing a corresponding investment in the statement of net position as of June 30, 2020. On December 20, 2021, the JMOB LLC building was sold. As a result, \$20.3 million was received as a distribution of member proceeds net of adjusted capital return and \$1.9 million was received from remaining cash, resulting in investment income of \$6.7 million being recorded as net investment gain, including change in fair value, in the consolidated basic statement of revenues, expenses and changes in net position and the JMOB LLC \$15.5 million fair value of ownership interest was removed from the consolidated basic statement of net position for the period ended June 30, 2022. The related space and ground leases remain in place with the new owner. Upon implementation of GASB Statement No. 87, *Leases*, ("GASB 87"), the space lease was recorded as a right-to-use lease asset in capital assets, net and a corresponding increase in lease obligations recorded in the consolidated basic statement of net position as of July 1, 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,

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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 had title to YMOB LLC or responsibility for the debt related to the construction of it. Upon construction completion, the Company was 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. On December 20, 2021, the YMOB LLC medical office building was sold. As a result, \$3.4 million was received as a distribution of member proceeds net of adjusted capital return and \$0.3 million was received from remaining cash, resulting in equity investment gain of \$3.7 million being recorded as a gain within other nonoperating loss, net in the consolidated basic statement of revenues, expenses and changes in net position for the fiscal period ended June 30, 2022. The related space and ground leases remain in place with the new owner. The space lease was re-evaluated upon adoption of GASB Statement No. 87, *Leases*, and recorded as a right-to-use lease asset in capital assets, net and a corresponding increase in lease obligations recorded in the consolidated basic statement of net position as of July 1, 2021.

During fiscal year ended June 30, 2022, the Company implemented GASB Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, the Company was required to recognize a lease liability and an intangible right-to-use lease asset for certain leases previously reported as operating leases under the previous accounting standards. The adoption of this statement resulted in an increase in lease obligations and related right-of-use lease assets of approximately, \$88.0 million with respect to leases in which the Company is lessee, and the recognition of a lease receivable and related deferred inflow of resources of approximately \$20.6 million with respect to leases in which the Company is lessor, which are recorded in the consolidated basic statement of net position as of July 1, 2021.

During fiscal year ended June 30, 2023, the Company implemented 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"), which 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. Under this statement, the Company recorded an intangible right-to-use subscription asset and a corresponding subscription liability, and provided additional disclosures regarding a SBITA. The adoption of this statement resulted in an increase in subscription liability and related

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

right-to-use subscription asset of approximately \$12.9 million which are recorded in the consolidated basic statement of net position as of July 1, 2022. Amounts shown in management's discussion and analysis for fiscal years ended June 30, 2022 have not been restated.

The accompanying consolidated basic financial statements include the accounts of the Company and its subsidiaries as of and for the fiscal year ended June 30, 2023. 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 report by independent auditors' 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

A summary of the Company's condensed consolidated basic statements of net position is presented below. Amounts shown below for June 30, 2022 have not been restated to reflect the adoption of GASB Statement No. 96.

	June 30	
	2023	2022
	<i>(dollars in thousands)</i>	
Cash and cash equivalents and short-term investments	\$ 86,777	\$ 145,115
Other current assets	218,091	216,573
Capital assets, net	485,331	344,498
Other noncurrent assets	193,683	286,548
Total assets	<u>983,882</u>	<u>992,734</u>
Deferred outflows of resources	<u>19,326</u>	<u>10,876</u>
Current liabilities	188,380	158,628
Noncurrent liabilities	556,859	527,232
Total liabilities	<u>745,239</u>	<u>685,860</u>
Deferred inflows of resources	<u>25,329</u>	<u>31,526</u>
Net position		
Net investment in capital assets	164,385	55,768
Restricted:		
Expendable	5,026	5,026
Unrestricted	63,229	225,430
Total net position	<u>\$ 232,640</u>	<u>\$ 286,224</u>

During 2023, cash and cash equivalents and short-term investments decreased by approximately \$58.3 million, or 40.2%. Cash used by operations was approximately \$7.7 million. See "Consolidated Basic Statement of Cash Flows" section below for further information regarding cash activity.

Other current assets increased by approximately \$1.5 million, or 0.7% during 2023. The increase is mainly due to \$20.4 million increase in estimated third-party receivable; a \$4.0 million increase in assets limited as to use for swap collateral and a \$1.9 million increase in prepaid expense and

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

other current assets; offset by a \$16.8 million decrease in net patient accounts receivable; \$7.7 million decrease in due from city and state agencies; and a \$0.2 million decrease in supply inventories.

Capital assets, net, increased approximately \$140.8 million, or 40.9%, during 2023, with capital assets increasing by \$184.0 million offset by a \$43.2 million increase in accumulated depreciation. The capital asset increase is primarily related to the construction of the new North Phase III bed tower, approximately \$71.2 million; new leased right-to-use assets, including three new free-standing emergency department/urgent care hybrid centers ("FSEDs"), approximately \$31.0 million; approximately \$24.2 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; and implementation of GASB No. 96 with approximately \$12.9 million right-to-use subscription assets added as of July 1, 2022 and an additional \$0.9 million subsequent to July 1, 2022.

Other noncurrent assets decreased \$92.8 million, or 32.4%, during 2023, primarily due to a \$81.9 million decrease in cash held in trust mainly from Series 2022 project fund draws for construction of the new North Phase III bed tower; a \$15.9 million decrease in pension asset; offset by a \$3.4 million increase in lease receivable; a \$1.2 million increase of contributed capital in a direct service organization (GatorCare Health Management Corporation) that provides employee health plans; and a \$0.4 million increase in deposits.

During 2023, deferred outflows of resources increased by approximately \$8.5 million, or 77.7%, with an increase of a \$7.5 million in deferred outflows related to the pension; a \$1.7 million increase related to market value of bond swaps; offset by a \$0.6 million decrease attributed to the deferred outflow loss related to debt refundings upon issuance of the series 2022A and 2022B bond discussed further below; and a decrease of \$0.2 million attributed to the other post-employment benefits.

During 2023, current liabilities increased by \$29.8 million, or 18.8%, primarily related to a \$27.7 million increase in accounts payable; a \$4.2 million increase in the current portion due on long-term debt, leases and other borrowings; a \$0.2 million increase for estimated third-party liabilities, which is after the fiscal year 2023 repayment of \$21.4 million of Medicare Accelerated and Advance Payment Program funds, as described further below in the "COVID-19 Pandemic" section; a \$4.4 million increase in patient credit balances; a \$0.9 million increase in interest payable; and a \$0.4 million increase in leave payable; offset by a \$8.0 million decrease in salaries and benefits because of pay date timing differences.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Noncurrent liabilities increased approximately \$29.6 million, or 5.6%, during 2023, primarily due to \$22.3 million additional lease obligations; \$7.7 million of new GASB No. 96 related subscription liabilities; offset by repayment of debts and amortization of bond premiums; a \$1.7 million increase in the market value of bond swaps; and a \$1.2 million increase in deferred grant revenue and other noncurrent liabilities.

During 2023, deferred inflows of resources decreased \$6.2 million, or 19.7%, attributed primarily to a \$9.0 million decrease in pension plan; and a \$0.3 million decrease in other post-employment benefits; offset by a \$3.2 million increase in deferred inflow leases.

As of June 30, 2023, the Company has approximately \$445.7 million in debt outstanding compared to approximately \$448.9 million at June 30, 2022. The decrease is due to repayment of debts and amortization of bond premiums. As of June 30, 2023, the Company has approximately \$101.8 million of lease obligations, compared with approximately \$78.5 million of lease obligations at June 30, 2022. As of June 30, 2023, the Company has approximately \$10.9 million of subscription liabilities related to GASB No. 96 implementation as of July 1, 2022. On January 25, 2022, the Company closed on Series 2022 A & B bonds. Series 2022A Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project) were issued for approximately \$230.1 million, are tax-exempt with proceeds used to reimburse \$10.0 million of prior capital expenditures; refund approximately \$36.3 million of Series 2013B bonds, approximately \$7.6 million of Series 2015 bonds and approximately \$15.5 million of Series 2019 bonds; terminate related swaps; finance or reimburse the cost of certain capital improvements, which includes constructing and equipping the new North Phase III bed tower; pay capitalized interest and certain costs of issuance. Series 2022B Taxable Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project) were issued for approximately \$82.3 million with proceeds used to refund \$56.7 million of Series 2013A bonds; finance the cost of certain capital improvements, which includes constructing and equipping the new North Phase III bed tower; and pay certain costs of issuance. 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, which was extended on November 10, 2022 to September 18, 2023. 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. Series 2019 debt was

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

refunded upon issuance of the Series 2022 A&B bonds. The full \$10 million of the Series 2019A Revolving Line of Credit Note was received on November 15, 2022 and was repaid in full on June 2, 2023. There is no balance outstanding at June 30, 2023, nor was there an outstanding balance as of June 30, 2022. 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 was used for financing, refinancing and reimbursing the costs of capital improvements and for paying for costs of issuance, and was refunded upon issuance of the Series 2022 A&B bonds. During 2013, SJMC borrowed approximately \$123.6 million with the issuance of Healthcare Facilities Revenue Bonds Series 2013A and 2013B, for approximately \$64.2 million and \$59.4 million, respectively, on November 21, 2013. The proceeds of this issuance refunded the \$100 million Series 2013 Shands Jacksonville Medical Center Taxable Notes, paid for the cost of debt issuance, provided for a debt service reserve fund and was used to reimburse or fund capital projects. Series 2013 A&B debt was refunded upon issuance of the Series 2022 A&B bonds. 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 \$10.2 million as of June 30, 2023 and \$11.3 million as of June 30, 2022.

The Company was in compliance with all financial covenants of June 30, 2022. As of June 30, 2023, the Company was not in compliance with the debt service coverage ratio requirement. This noncompliance does not result in an event of default as of June 30, 2023. If the requirement is not met for two consecutive fiscal years, it could be an event of default under the borrowing agreements. The Company has taken actions to remedy the noncompliance, including hiring an independent consultant to provide operational improvement recommendations.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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	
	2023	2022
	<i>(dollars in thousands)</i>	
Net patient service revenue	\$ 861,446	\$ 887,062
Other operating revenue	26,334	21,371
Total operating revenues	887,780	908,433
Operating expenses	951,829	915,347
Operating (loss) gain	(64,049)	(6,914)
Nonoperating revenue, net	(14,801)	3,576
(Deficit) excess of revenues over expenses before capital contributions	(78,850)	(3,338)
Other changes in net position:		
City of Jacksonville capital grant	24,223	14,275
Capital contributions, net	1,043	-
Increase in net position	(53,584)	10,937
Net position		
Beginning of year	286,224	275,287
End of year	<u>\$ 232,640</u>	<u>\$ 286,224</u>

Patient Volumes

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

	2023	2021
Inpatient admissions	25,268	25,218
Outpatient visits	560,924	563,915

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

During 2023 inpatient admissions, excluding observation cases, increased by 50 or 0.2%. Outpatient visits decreased by 2,991 or 0.5%. There was no significant spike in COVID-19 cases in 2023.

Operating Revenues

During 2023, patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, decreased approximately \$25.6 million, or 2.9%. While gross patient revenue increased \$355.8 million, or 8.4%, it was offset by a \$381.5 million increase in net deductions from revenues, which includes a \$40.1 million, or 21.7%, decrease in City and State indigent care support most notably for a reduction in Low Income Pool funding associated with charity cost reductions.

Other operating revenue increased approximately \$5.0 million, or 23.2%, during 2023, primarily from contract services and grant revenue.

Operating Expenses

During 2023, operating expenses increased approximately \$36.5 million, or 4.0%. Salaries and benefits increased approximately \$9.5 million, or 2.2%, which primarily relates to contract labor, merit increases since prior year and market adjustments, described further in the "COVID-19 Pandemic" section below. Supplies and services increased approximately \$24.5 million, or 5.5%, mainly due to a \$7.7 million increase in medical supplies, related to pharmacy, implants and other general medical supply costs; a \$7.2 million increase in professional fees, primarily related to residents and FSEDs; a \$5.9 million increase in purchased services, primarily related to dietary services, environmental services and repair and maintenance costs; a \$2.0 million increase in utilities; a \$1.4 million increase in non-medical supplies, primarily minor equipment for information technology services and for FSEDs; a \$1.4 million increase in transfers and expenditures in support of the University of Florida and its medical programs; a \$0.8 million increase in AHCA assessment; and a \$0.5 million increase in insurance; which are offset by a \$1.0 million decrease associated with the Medicaid DPP special assessment; a \$0.9 million decrease in lease/rental expense; and a \$0.6 million decrease in other direct costs, primarily for bond expenses;. Depreciation expense increased \$2.5 million, or 6.1%.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Nonoperating Revenues (Expenses), Net

Nonoperating expenses, net, for fiscal year 2023, were approximately \$14.8 million, which includes interest expense of approximately \$18.9 million; \$5.1 million other nonoperating loss for a non-capital contribution; offset by net investment gain of approximately \$9.2 million (including the increase in fair value of approximately \$2.5 million).

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. For the fiscal year 2023, the Company is expecting \$95.0 million through year five (5) of the six-year period. Approved amounts are paid to SJMC as reimbursement for amounts SJMC has paid directly to vendors. For the period ended June 30, 2023, approximately \$24.2 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 \$9.9 million, or 69.7%, over the prior year.

Consolidated Basic Statement of Cash Flows

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

During 2023, cash and cash equivalents decreased by approximately \$37.1 million, or 30.7%. Cash inflows were primarily related to net cash received from patients and third-party payors of \$869.7 million; \$111.1 million redemption of short-term investments and assets limited as to use; \$24.5 million from other receipts from operations; \$24.0 million from capital grants; \$10.0 million draw on a line of credit, which was repaid prior to fiscal year-end, as noted below; \$6.7 million of investment income; a capital contribution of \$1.0 million; and \$0.5 million proceeds from grants. Cash outflows were primarily related to cash used by operating activities paid to employees and vendors of \$901.9 million; payments for acquisition of capital assets of \$121.3 million; other borrowing and interest payments of \$33.4 million; \$10 million repayment of a line of credit draw, mentioned above; purchase of short-term investments and assets whose use is restricted of \$9.4 million; and noncapital contributions of \$8.6 million.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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.

During 2022, the Company experienced two COVID-19 surges, one in August 2021 and the other in January 2022, resulting in inpatient cases reaching 273 (Delta Variant) and 163 (Omicron Variant), respectively. As a result, the Company continued to realize higher than budgeted case mix index and a positive shift in payor mix, both contributing to a favorable net revenue, which was offset by additional COVID related salary and supply costs. In addition, the Company recognized \$8.3 million in Provider Relief Funds ("PRF") comprised of \$3.4 million of remaining Safety Net Hospital distribution funding received in July 2020 and Phase 4 Rural and General funding distributions of \$2.6 million and \$2.3 million, respectively.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills, which 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. During 2021, the company recognized the final \$3.4 million of the safety net hospital distribution received in July 2020. In November 2021, the Company received \$2.6 million of Phase 4 Rural Funds and in December 2021 the Company received \$2.3 million of Phase 4 General Funds. 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, \$42.4 million in the fiscal year ended June 30, 2021 and \$8.3 million in the fiscal year ended June 30, 2022. There were no amounts recognized in the fiscal year ended June 30, 2023. At June 30, 2021, \$3.4 million was recorded in other liabilities in the consolidated basic statement of net position and at June 30, 2022 the balance is \$0. 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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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, 2023, management does not believe such repayment amounts, if any, would be material to the consolidated basic financial statements.

- The CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. 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 was 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. During fiscal year 2022, an additional \$45.8 million was repaid. During fiscal year 2023, the remaining balance of \$21.4 million was repaid. There is no outstanding balance as of June 30, 2023.
- 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 was paid in December 2021, and the remaining half was repaid in December 2022. There is no outstanding balance as of June 30, 2023.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Medicaid Direct Payment Program

On September 28, 2021, the City of Jacksonville passed a resolution to establish a Local Provider Participation Fund to support the first year of Medicaid DPP, for Medicaid Region 4 providers, which will be used to subsidize the shortfall in Medicaid reimbursement related to the period October 1, 2020 through December 31, 2021. As a result, the Company received additional gross Medicaid reimbursement of \$32.1 million, which in its entirety was recorded in June 30, 2022 fiscal year patient service revenue, net of provision for bad debts in the consolidated basic statement of revenues, expenses and changes in net position. The second year of Medicaid DPP resulted in the Company recording \$31.0 million additional gross Medicaid reimbursement, which in its entirety was recorded in June 30, 2023 patient service revenue, net of provision for bad debts in the consolidated basic statement of revenues, expenses and changes in net position.

Credit Ratings

The Company's underlying credit rating of BBB- was reaffirmed by Fitch Ratings in December 2022, with a stable outlook. Moody's Investors Service downgraded the Company's credit rating to Ba1 from Baa3 in March 2023, with a negative outlook.

Consolidated Basic Financial Statements

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statement of Net Position (dollars in thousands)

June 30, 2023

Assets

Current assets:	
Cash and cash equivalents	\$ 83,635
Short-term investments	3,142
Patient accounts receivable, net of allowance for uncollectibles of \$139,864	124,645
Due from city and state agencies	20,172
Inventories	19,701
Prepaid expenses and other current assets	21,348
Assets whose use is restricted, current portion	5,832
Estimated third-party payor settlements	26,393
Total current assets	304,868
Assets whose use is restricted, less current portion	157,396
Capital assets, net	485,331
Other assets	36,287
Total assets	983,882

Deferred outflows of resources

Accumulated decrease in fair value of hedge derivatives	3,873
Deferred loss on debt refunding	4,498
Deferred other post-employment benefits outflows	371
Deferred pension outflows	10,584
Total deferred outflows of resources	19,326

Liabilities

Current liabilities:	
Long-term debt, current portion	1,170
Lease obligations, current portion	10,129
Subscription liabilities, current portion	3,205
Accounts payable and accrued expenses	113,150
Accrued salaries and leave payable	29,017
Estimated third-party payor settlements	31,709
Total current liabilities	188,380
Long-term liabilities:	
Long-term debt, noncurrent portion	444,518
Lease obligations, noncurrent portion	91,636
Subscription liabilities, noncurrent portion	7,650
Other liabilities	13,055
Total long-term liabilities	556,859
Total liabilities	745,239

Deferred inflows of resources

Deferred other postemployment benefits inflows	1,649
Deferred pension inflows	2,050
Deferred inflow leases	21,630
Total deferred inflows of resources	25,329

Net position

Net investment in capital assets	164,385
Restricted:	
Expendable	5,026
Unrestricted	63,229
Total net position	\$ 232,640

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, 2023

Operating revenues

Net patient service revenue, net of provision for bad debts of \$117,765	\$ 861,446
Other operating revenue	26,334
Total operating revenues	<u>887,780</u>

Operating expenses

Salaries and benefits	439,717
Supplies and services	468,285
Depreciation and amortization	43,827
Total operating expenses	<u>951,829</u>
Operating loss	<u>(64,049)</u>

Nonoperating revenues (expenses)

Interest expense	(18,876)
Net investment gain, including change in fair value	9,223
Loss on lease modification	(2)
Gain on disposal of capital assets, net	3
Other nonoperating loss, net	(5,149)
Total nonoperating expenses, net	<u>(14,801)</u>
Deficit of revenues over expenses before capital contributions	(78,850)
City of Jacksonville capital grant	24,223
Capital contributions, net	1,043
Decrease in net position	<u>(53,584)</u>

Net position

Beginning of year	286,224
End of year	<u>\$ 232,640</u>

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, 2023

Operating activities

Cash received from patients and third-party payors	\$ 869,670
Other receipts from operations	24,484
Salaries and benefits paid to employees	(449,166)
Payments to suppliers and vendors	(452,718)
Net cash used in operating activities	<u>(7,730)</u>

Noncapital financing activities

Proceeds from short-term debt	10,000
Interest paid	(491)
Proceeds from grant	464
Noncapital contribution	(8,582)
Payments of short-term financing	(10,000)
Payments of long-term debt	(1,119)
Net cash used in noncapital financing activities	<u>(9,728)</u>

Capital and related financing activities

Payments for capital assets	(121,312)
Proceeds from sale of capital assets	23
Payments of long-term debt, lease obligations and subscription liabilities	(14,921)
Interest paid	(16,888)
City of Jacksonville capital grant	24,031
Capital contributions	1,043
Net cash used in capital and related financing activities	<u>(128,024)</u>

Investing activities

Investment income received	6,717
Redemption of short-term investments and assets whose use is restricted	111,132
Purchase of short-term investments and assets whose use is restricted	(9,431)
Net cash provided by investing activities	<u>108,418</u>

Net decrease in cash and cash equivalents (37,064)

Cash and cash equivalents

Beginning of year	<u>120,699</u>
End of year	<u>\$ 83,635</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statement of Cash Flows (continued)
(dollars in thousands)

Year Ended June 30, 2023

Reconciliation of operating loss to net cash used in operating activities

Operating loss	\$ (64,049)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	43,827
Provision for bad debts	117,765
Changes in:	
Patient accounts receivable	(93,004)
Prepaid expenses, inventories and other current assets	1,751
Other assets	3,645
Accounts payable and accrued expenses	7,983
Estimated third-party payor settlements	(20,209)
Other liabilities	(5,439)
Total adjustments	<u>56,319</u>
Net cash used in operating activities	<u>\$ (7,730)</u>

Disclosure of supplemental cash flow information

Net increase in fair value of investments	\$ 2,535
Net change in fair value of nonhedged derivatives and other nonoperating gains	(5,149)
Accrued purchases of property and equipment	27,509

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2023

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 consolidated entities of the Company but are not a part of the Obligated Group.

The President of UF, or that person’s 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. (collectively “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.

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies

Use of Estimates

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

Tax Status

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

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 (“NAV”). 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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. Right-to-use lease assets are stated at the present value of minimum lease payments at the inception of the lease. Right-to-use subscription assets are stated at the present value of minimum payments at the inception of the arrangement. 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. Right-to-use lease and subscription assets and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statement of revenues, expenses and changes in net position. 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
Right-to-use subscription information technology arrangements	1–8

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 \$38,088,000 of net unamortized original premiums for the Series 2015 and 2022A Bonds at June 30, 2023, which will be amortized over the remaining periods of the obligations using the effective interest method.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net assets that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. Notwithstanding those similarities, deferred outflows of resources are not assets and deferred inflows of resources are not liabilities and, accordingly, are not included in those sections of the accompanying consolidated basic 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 for accumulated personal leave balances that are more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. More likely than not is estimated using historical information based on length of service categories defined in the Company's policy that are not 100% eligible to receive 100% of accumulated balances. Upon termination of employment, employees will have their eligible accrued personal leave paid in full. Accrued personal leave was approximately \$19,414,000 as of June 30, 2023, and is included in accrued salaries and leave payable in the accompanying consolidated basic statement of net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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 distinguishes 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Interest expense; grant revenue; net investment gain, including change in fair value; gain on disposal of capital assets, net; and other nonoperating loss, net 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 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 fiscal year ended June 30, 2023, net patient service revenue increased by approximately \$15,116,000 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 fiscal year ended June 30, 2023, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system, Diagnosis Related Groups, that is based on clinical, diagnostic and other factors.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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, 2023, Medicare cost reports through June 30, 2010, and for fiscal years ended June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018, 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 types of managed care plans, including health maintenance organizations, provider service networks and the 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 fiscal year ended June 30, 2023, was derived from services to Medicaid beneficiaries. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed at prospectively determined rates based upon Enhanced Ambulatory Patient Groupings ("EAPGs"). 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, 2023, 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Other Third-Party Payors

The Company has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

Provision for Bad Debts and Allowance for Uncollectible Accounts

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

Risk Management

The Company is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters in excess of self-insured limits. Settled claims have not exceeded this commercial coverage for the fiscal year ended June 30, 2023.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 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. The adoption of the statement did not have a material effect on the consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (“GASB No. 94”). The primary objective of GASB No. 94 is to improve financial reporting and address certain issues related to public-private and public-public partnership arrangements (“PPP”) and to provide guidance for accounting and financial reporting for availability payment arrangements (“APA”). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. GASB No. 94 is effective for fiscal years beginning after June 15, 2022. The adoption of the statement did not have a material effect on the consolidated basic financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (“GASB No. 96”). GASB No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users. An 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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB No. 96 establishes that an 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 adoption of this statement resulted in an increase in subscription liabilities and related right-of-use assets of approximately \$12,919,000.

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

In June 2022, the GASB issued GASB Statement No. 100, *Accounting Changes and Error Corrections* (“GASB No. 100”). The primary objective of GASB No. 100 is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB No. 100 is effective for fiscal years beginning after June 15, 2023. The Company is currently evaluating the impact GASB No. 100 will have on its consolidated basic financial statements.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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 fiscal year ended June 30, 2023, were approximately \$331,916,000.

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

3. Un-sponsored Community Benefit (continued)

The Company's valuation of un-sponsored community benefits at estimated cost for the fiscal year ended June 30, 2023, is as follows (*dollars in thousands*):

Financial assistance provided	\$ 67,183
Government support applied to charity care	<u>(40,000)</u>
Net unreimbursed financial assistance	<u>27,183</u>
Benefits for the broader community:	
Community health services	412
Health professions education	<u>29,992</u>
Total quantifiable benefits for the broader community	<u>30,404</u>
Total community benefits	<u><u>\$ 57,587</u></u>

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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, 2023 (*dollars in thousands*):

Current assets:	
Cash and cash equivalents	\$ 83,635
Short-term investments	3,142
Assets whose use is restricted, current portion	<u>5,832</u>
	92,609
Long-term assets:	
Assets whose use is restricted, less current portion	<u>157,396</u>
	<u>\$ 250,005</u>

The composition of cash, cash equivalents, investments and assets whose use is restricted at June 30, 2023, is as follows:

	Market Value	Investment Maturities		
		Less Than 1 Year	1–3 Years	N/A
		<i>(dollars in thousands)</i>		
Certificates of deposit	\$ 92	\$ 92	\$ –	\$ –
Florida Treasury Investment Pool (“SPIA”)	2,919	–	2,919	–
Money market funds	141,042	–	–	141,042
Bank deposits	105,952	–	–	105,952
	<u>\$ 250,005</u>	<u>\$ 92</u>	<u>\$ 2,919</u>	<u>\$ 246,994</u>

The Florida State Treasury operates a special investment program for public entities and is called the Special Purpose Investment Account (“SPIA”). The Florida Treasury Investment Pool invests in a combination of short-term liquid instruments and intermediate fixed income securities. A maximum of 40% can be redeemed with five day notice, including less than \$20 million with same

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

day notice. The remaining 60% can be redeemed with six months' notice. The six-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, 2023 (*dollars in thousands*):

Internally designated by the Board of Directors for clinical support, education, research and other health programs	\$ 19,500
Debt-related project funds	137,968
Held by bank as collateral for interest rate swaps	5,760
	<u>163,228</u>
Less current portion	(5,832)
Long-term portion	<u>\$ 157,396</u>

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

The credit risk profile of the Company’s investments and funds internally designated by the Board of Directors as of June 30, 2023, is as follows:

	Fair Value	Ratings		
		AAA	A-1+/P-1	AA-f
		<i>(dollars in thousands)</i>		
Certificates of deposit	\$ 92	\$ –	\$ 92	\$ –
Florida Treasury Investment Pool (“SPIA”)	2,919	–	–	2,919
Money market funds	141,042	141,042	–	–
	<u>\$ 144,053</u>	<u>\$ 141,042</u>	<u>\$ 92</u>	<u>\$ 2,919</u>

Concentration of Credit Risk

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

Custodial Credit Risk

As of June 30, 2023, 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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

Investment gain, net for fiscal year 2023 is as follows (*dollars in thousands*):

Dividends and interest income	\$ 6,688
Net increase in the fair value of investments	<u>2,535</u>
Investment gain, net	<u><u>\$ 9,223</u></u>

5. Fair Value

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

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

The recurring fair value measurement of investments at June 30, 2023 is as follows (*dollars in thousands*):

Florida Treasury Investment Pool (“SPIA”)	\$ 2,919
Money market funds and certificates of deposit	141,134
Cash collateral on deposit with swap counterparty	<u>5,760</u>
	<u><u>\$ 149,813</u></u>

The SPIA funds are combined with State Funds and are invested as part of the Florida Treasury Investment Pool and are measured at fair value and classified as a Level 3 investment per the fair value hierarchy.

The Company’s money market funds and certificates of deposit and cash collateral on deposit with swap counterparty are classified as Level 1 of the fair value hierarchy.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

5. Fair Value (continued)

The Company's total return swap is classified in Level 2 of the fair value hierarchy. The fair value is 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 value of the interest rate swap is included in Note 8.

6. Capital Assets

A summary of changes in capital assets during fiscal year 2023 is as follows:

	Balance at June 30, 2022	Additions	Deletions	Transfers	Balance at June 30, 2023
		<i>(dollars in thousands)</i>			
Land	\$ 24,198	\$ —	\$ (4)	\$ —	\$ 24,194
Buildings	448,708	—	—	17,476	466,184
Equipment	312,358	—	(644)	7,637	319,351
Totals at historical cost	785,264	—	(648)	25,113	809,729
Less accumulated depreciation for:					
Buildings	(281,469)	(16,332)	—	—	(297,801)
Equipment	(268,104)	(12,718)	618	—	(280,204)
Total property, plant and equipment, net	235,691	(29,050)	(30)	25,113	231,724
Right-to-use asset under lease:					
Buildings	78,447	32,398	—	—	110,845
Equipment	9,543	657	(14)	—	10,186
Accumulated amortization	(10,962)	(11,374)	12	—	(22,324)
Total right-to-use-asset under lease, net	77,028	21,681	(2)	—	98,707
Right-to-use subscription asset	12,919	944	—	—	13,863
Accumulated amortization	—	(3,403)	—	—	(3,403)
Total right-to-use subscription asset, net	12,919	(2,459)	—	—	10,460
Construction-in-progress	31,779	137,774	—	(25,113)	144,440
Capital assets, net	<u>\$ 357,417</u>	<u>\$ 127,946</u>	<u>\$ (32)</u>	<u>\$ —</u>	<u>\$ 485,331</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

6. Capital Assets (continued)

Total depreciation and amortization expense were approximately \$43,827,000 for the fiscal year ended June 30, 2023, which includes right-to-use lease asset amortization of approximately \$11,374,000 and right-to-use subscription asset amortization of approximately \$3,402,000. Construction-in-progress at June 30, 2023 consists primarily of costs incurred for the construction of various hospital building renovations and other related projects.

7. Long-Term Liabilities

Long-term debt comprises the following at June 30, 2023 (*dollars in thousands*):

Tax-exempt direct placement bonds:	
Series 2022A, UF Health Jacksonville Project	\$ 230,145
Series 2015	85,000
	315,145
Taxable direct placement bonds:	
Series 2022B, UF Health Jacksonville Project	82,260
	397,405
Taxable notes:	
Direct borrowing notes:	
2011 Shands note payable	10,195
Series 2019A, revolving line of credit	—
	407,600
Net unamortized bond premium	38,088
Total long-term debt	445,688
Less long-term debt, current portion	(1,170)
Long-term portion	\$ 444,518

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities (continued)

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

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023	Amounts Due Within One Year
	<i>(dollars in thousands)</i>				
Tax-exempt direct placement bonds:					
Series 2022A, UF Health Jacksonville project	\$ 230,145	\$ —	\$ —	\$ 230,145	\$ —
Series 2015	85,000	—	—	85,000	—
	<u>315,145</u>	<u>—</u>	<u>—</u>	<u>315,145</u>	<u>—</u>
Taxable direct placement bonds:					
Series 2022B, UF Health Jacksonville project	82,260	—	—	82,260	—
	<u>397,405</u>	<u>—</u>	<u>—</u>	<u>397,405</u>	<u>—</u>
Taxable notes:					
Direct borrowing notes:					
2011 Shands note payable	11,314	—	(1,119)	10,195	1,170
Series 2019A, revolving line of credit	—	10,000	(10,000)	—	—
	<u>\$ 408,719</u>	<u>\$ 10,000</u>	<u>\$ (10,119)</u>	<u>\$ 407,600</u>	<u>\$ 1,170</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities (continued)

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

	Direct Placement/Borrowing Bonds and Notes	
	Principal	Interest
	<i>(dollars in thousands)</i>	
Fiscal year ending June 30:		
2024	\$ 1,170	\$ 17,826
2025	1,224	17,772
2026	3,564	17,715
2027	3,743	17,536
2028	3,929	17,348
2029–33	107,260	79,932
2034–38	54,695	60,277
2039–43	66,635	45,399
2044–48	82,240	28,619
2049–53	83,140	7,835
	<u>\$ 407,600</u>	<u>\$ 310,259</u>

Cash paid for interest was approximately \$17,379,000 for the fiscal year ended June 30, 2023.

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. 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities (continued)

Series 2022A Healthcare Facilities Revenue Bonds and Series 2022B Taxable Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project)

On January 25, 2022, the Company closed on Series 2022 A and B bonds. Series 2022A Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project), which were issued for approximately \$230.1 million, are tax-exempt, with proceeds used to reimburse \$10.0 million of prior capital expenditures; terminate related swaps; finance or reimburse the cost of certain capital improvements, which includes constructing and equipping the new North Phase III bed tower; pay capitalized interest; pay for certain costs of issuance; and provide for certain current refundings of bonds, which include approximately \$36.3 million of Series 2013B bonds, approximately \$7.6 million of Series 2015 bonds and approximately \$15.5 million of Series 2019 bonds. The current refundings resulted in a loss of approximately \$401,000, which is amortized over the shorter of the life of the maturity of the refunded debt or new debt and reported as a deferred outflow in the consolidated basic statement of net position, with approximately \$295,000 remaining at June 30, 2023. As a result of the refunding, if refunded debt were held to maturity, the Company's debt service requirement would increase by approximately \$3.4 million over the remaining life of the refunded bond and produce an economic loss (difference between the present value of the debt service payments on the old and new debt) of approximately \$4.9 million as of the Series 2022A issuance date.

Series 2022B Taxable Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project) were issued for approximately \$82.3 million, with proceeds used to advance refund \$56.7 million of Series 2013A bond principal; finance the cost of certain capital improvements, which includes constructing and equipping the new North Phase III bed tower; and paying certain costs of issuance. The refunding bonds and existing debt service reserve funds were used to purchase risk-free direct obligations of the U.S. government, which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the Company's consolidated basic statement of net position. The advance refunding resulted in a loss of approximately \$4,897,000 which is amortized over the shorter of the life of the maturity of the refunded debt or new debt and reported as a deferred outflow in the consolidated basic statement of net position, with approximately \$4,203,000 remaining at June 30, 2023. As a result of the refunding, the Company reduced its debt service requirement by approximately \$9,890,000 over the remaining life of the refunded bond and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$3,834,000, as of the Series 2022B issuance date. At June 30, 2023, the Series 2013A outstanding balance is \$56,700,000.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities (continued)

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. On December 8, 2020, the line of credit was extended from maturing on September 18, 2020, to final maturity on September 18, 2022 and on November 10, 2022, the line of credit was extended from maturing on September 18, 2022, to final maturity on September 18, 2023. As of the date that these financial statements are available to be issued, an extension has not been executed. At June 30, 2023, 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.

Debt Covenants

Certain of the borrowing agreements contain covenants that include periodic reporting; incurrence of additional debt; the sale, lease or other disposal of property, plant and equipment; consolidation/mergers/conveyances; and the maintenance of certain financial ratios. As of June 30, 2022, the Company was in compliance with all financial covenants. As of June 30, 2023, the Company was not in compliance with the debt service coverage ratio requirement. This noncompliance does not result in an event of default as of June 30, 2023. If the requirement is not met for two consecutive fiscal years, it could be an event of default under the borrowing agreements. The Company has taken actions to remedy the noncompliance, including hiring an independent consultant to provide operational improvement recommendations.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Interest Rate Swaps

On June 30, 2023, the Company had the following derivative instruments outstanding, which is 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	2023 Fair Value
<i>(dollars in thousands)</i>							
Total return interest rate swap	Hedge costs of borrowing	\$ 87,268	\$ 85,000	12/10/2015	4/22/2027	Receive fixed 5.25%, pay USD SIFMA + 200-basis-point spread	\$ (3,873)
							<u>\$ (3,873)</u>

The change in fair value of the hedged \$85,000,000 interest rate swap amounts to approximately \$3,873,000 and is 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, 2023, 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-/A1/A- at June 30, 2023.

Interest Rate Risk

The Company receives a fixed rate and pays a variable rate for the Series 2015 total return swap.

Basis Risk

The Company receives a fixed rate and pays a variable rate for the Series 2015 total return swap.

Termination Risk

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Interest Rate Swaps (continued)

Commitments

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 \$5,760,000 at June 30, 2023.

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 \$13,337,000 for the fiscal year ended June 30, 2023.

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.

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

Benefits Provided

The Plan provides for retirement and death benefits. Retirement benefits are determined based upon varying formulas dependent upon hire date and years of service. For participants hired prior to July 1, 1997, the Plan provided benefits under a traditional benefit formula (1.6% of the average of the employee's five highest annual compensation amounts multiplied by the employee's years of credited service) through July 1, 2011, when the Plan was amended to cease traditional pension benefits. For participants hired as of July 1, 1997, and subsequent new hires through June 30, 2010, and as of July 1, 2011, for participants who were previously accruing benefits under the traditional pension formula, the Plan provided cash balance benefits, with a hypothetical account maintained for each participant in which contributions were credited for the benefit of the individual based on a participant's years of credited vesting service. Participants continued to accrue cash balance benefits through June 30, 2013, when the Plan was amended to cease accrual of cash balance benefits. Employees hired on or after July 1, 2010, receive 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, 2022, the measurement date for the pension liability, the following employees were covered by the benefit terms (participant data as of July 1, 2021):

Active	4
Retired	58
Terminated vested	468
	<hr/>
	530
	<hr/>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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 made no contribution for the fiscal year ended June 30, 2023.

Net Pension Liability

The Company's proportionate share of the net pension liability as of June 30, 2023, was approximately \$413,000 and was based on a measurement date of June 30, 2022, and is included in other liabilities in the accompanying consolidated basic statement of net position. The total pension liability used to calculate the net pension liability as of June 30, 2022, was determined based on the results of an actuarial valuation as of July 1, 2021, projected forward to June 30, 2022, using standard actuarial techniques. The Company's proportionate share of the net pension liability 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, 2023, the Company's proportion was (1.7)%, which was a decrease of 8.9% from its proportion reported as of June 30, 2022.

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

- Investment rate of return: 6.10%, net of pension plan investment expense, including inflation.
- Salary increases: Not applicable
- Inflation: 3.0% for the period July 1, 2021 through June 30, 2022; 3.0% for the period July 1, 2022 through June 30, 2023; and 2.0% per year thereafter.
- Retirement growth account interest crediting rate: 3.29% for the period July 1, 2021 through June 30, 2022; 3.42% for the period July 1, 2022 through June 30, 2023; and 4.1% per year thereafter. The 3.29% and 3.42% rates represent the actual interest rate credited in each respective period.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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-2021 applied on a generational basis.
- The actuarial assumptions used in the July 1, 2021 valuation related to retirement and termination rates were based on the results of an actual experience study conducted in 2020 for the period July 1, 2015 through June 30, 2020.

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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 liability calculated using the discount rate of 6.10%, as well as the net pension liability 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%)
	<i>(dollars in thousands)</i>		
Proportionate share of net pension liability (asset)	\$ 4,476	\$ 413	\$ (3,160)

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

The Company recognized an increase of pension expense of approximately \$595,000 for the fiscal year ended June 30, 2023. At June 30, 2023, 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
	<i>(dollars in thousands)</i>	
Differences between expected and actual experience	\$ 1,480	\$ 73
Changes of assumptions	1,767	1,977
Net differences between projected and actual earnings on pension plan investments	6,509	-
Contributions made during the fiscal year ended June 30, 2023, not yet recognized in net fiduciary position	828	-
	<u>\$ 10,584</u>	<u>\$ 2,050</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

The contributions made to the Plan during the fiscal year ended June 30, 2023, 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*):

Fiscal year ending:		
2024	\$	1,647
2025		1,474
2026		1,091
2027		3,494
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, 2022:

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

Credit Risk

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

Interest Rate Risk

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

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

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

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 or, in the case of long government/credit fixed income portfolio investments, collective vehicles such as mutual funds and commingled trusts employed in the execution of the strategy. As of the measurement date of June 30, 2022, the Plan did not have any investments that equaled or exceeded these thresholds.

Custodial Risk

The custodial 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, 2022, the Plan's investment portfolio was held by a single third-party custodian.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

Foreign Currency Risk

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

The Plan's exposure to currency risk as of the measurement date of June 30, 2022 is as follows (*dollars in thousands*):

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

10. Other Post-employment 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Other Post-employment 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
 - 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Other Post-employment Benefits (continued)

Contributions

The Company's annual post-employment 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 they have no impact on the Company's liability, with the exception of one 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 Post-employment Benefits Liability

The Company's reported liability for post-employment 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 post-employment liability one year prior to the fiscal year-end reporting date, with a measurement date of July 1, 2022. There are no significant changes known that would impact the total post-employment liability between the measurement date and the reporting date, other than typical plan experience.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Other Post-employment Benefits (continued)

For purposes of the July 1, 2022, measurement date, the number of plan participants consisted of the following:

	<u>Medical</u>	<u>Dental</u>
Participant data as of July 1, 2021:		
Retirees	9	189
Spouses	1	52
Surviving spouses	—	—
	<u>10</u>	<u>241</u>

As of July 1, 2022, there were 313 fully eligible active employees and 4,519 active but not fully eligible employees.

Changes in the total reported liability for post-employment benefits obligations for the year ended June 30, 2023, are summarized as follows (*dollars in thousands*):

Balance, beginning of year	\$ 3,894
Changes for the year:	
Service cost	193
Interest	81
Difference between expected and actual experience	37
Changes of assumptions	(457)
Benefit payments	<u>(262)</u>
Net changes	<u>(408)</u>
Balances, end of year	<u>\$ 3,486</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Other Post-employment Benefits (continued)

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

- Discount rate on 20-year General Obligation Municipal Bonds:
 - 3.54% per annum for the July 1, 2022, measurement date
- Medical health care cost trend rates:
 - Initial/ultimate 5.35%/4.00% increases for the July 1, 2022, measurement date
- Dental health care cost trend rates:
 - Initial/ultimate 4.00%/4.00% increases for the July 1, 2022, measurement date

Mortality was based on the Pri-2012 blue collar mortality with separate employee, retiree and contingent survivor tables. The Mercer Modified Projection-2021 scale was applied on a generational basis.

Sensitivity of the Other Post-employment Benefits Liability to the Changes in the Health Care Cost Trend Rates

The following shows the total other post-employment 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 one percentage point higher and one percentage point lower (*dollars in thousands*):

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Trend</u>	<u>1%</u> <u>Increase</u>
Other postemployment benefit liability	\$ 3,304	\$ 3,486	\$ 3,688

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Other Post-employment Benefits (continued)

Sensitivity of the Other Post-employment 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 2.14% and the effect on the liability of using a discount rate that is one percentage point lower and one percentage point higher (*dollars in thousands*):

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Other post-employment benefit liability	\$ 3,707	\$ 3,486	\$ 3,292

The components of post-employment benefits expense for the fiscal year ended June 30, 2023, are summarized as follows (*dollars in thousands*):

Service cost	\$ 193
Interest	81
Change in benefit terms	—
Amortization of differences between expected and actual experience	65
Amortization of changes of assumptions	(634)
Total other post-employment benefits expense	<u>\$ (295)</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Other Post-employment Benefits (continued)

Deferred outflows of resources and deferred inflows of resources related to post-employment benefits obligations at June 30, 2023, are summarized as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
	<i>(dollars in thousands)</i>	
Differences between expected and actual experience	\$ 157	\$ 4
Changes of assumptions	–	1,645
Contributions made during the fiscal year ended June 30, 2023, not yet recognized in net fiduciary position	214	–
Total	<u>\$ 371</u>	<u>\$ 1,649</u>

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 fiscal years ended June 30 (*dollars in thousands*):

Year ending:	
2024	\$ 664
2025	459
2026	226
2027	115
Thereafter	28

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

11. Commitments and Contingencies (continued)

The Company adopted GASB Statement No. 87, Leases (“GASB No. 87”) as of July 1, 2021. As such, the Company recognized a lease obligation and a right-of-use lease asset for agreements whereby the Company has the right to determine the nature and manner of an underlying asset’s use for a period of one year or greater. Below is a description of these lessee lease arrangements.

Property Leases

The Company has 38 active space leases, representing a variety of health care services and locations, throughout Northeast Florida and Southeast Georgia. The leases are necessary for the delivery of service in providing health care services to patients in the region. These sites include a mix of medical offices. While terms vary by lease, each lease provides for a monthly lease payment and may also include a fixed escalation on the anniversary date of each agreement. None of leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments or termination penalties not previously included in the measurement of the lease liability reflected as outflows of resources. As of June 30, 2023, the right-of-use lease asset for property leases, net of amortization, is approximately \$92,202,000 and is recorded in capital assets, net in the consolidated basic statement of net position.

Equipment Leases

The Company has 23 leases for a variety of medical and office equipment used in providing health care services to patients at a variety of locations throughout Northeast Florida and Southeast Georgia. The monthly lease payments, terms and other specifics vary with each lease contract, the type of equipment and the vendor providing the equipment. Lease terms have historically ranged up to 90 months from commencement. The type of equipment that is leased is typical for health care organizations that provide a variety of extensive services for both diagnostics and ongoing care for patients. Occasionally, depending on the specific equipment, there may be excess usage that would be excluded from the computation of the right-to-use asset and corresponding obligation. Any excess usage would be billed and paid separately for the use exceeding the contracted amount. If the Company should decide to continue the use of a piece of office or medical equipment at the end of the lease term, there may be contractual options to negotiate the purchase or extension, depending on the vendor and the equipment. There are no other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources. As of June 30, 2023, the right-to-use asset for equipment leases, net of amortization, is approximately \$6,505,000 and is recorded in capital assets, net in the consolidated basic statement of net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

11. Commitments and Contingencies (continued)

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

Fiscal year ending:	
2024	\$ 13,926
2025	13,548
2026	13,067
2027	13,080
2028	12,542
Thereafter	<u>69,930</u>
Total minimum lease payments	136,093
Less amount representing interest	<u>(34,328)</u>
Present value of net minimum lease payments	101,765
Less lease obligations, current portion	<u>(10,129)</u>
Lease obligations, noncurrent portion	<u>\$ 91,636</u>

Lessor transactions consist of 23 building and/or space leases for which it receives contractually determined monthly revenue. These lease contracts were entered into with a variety of organizations that provide health care services for patients in the Northeast Florida area. The agreements vary with each tenant as to the terms and length and space and may include escalation clauses. The longest lease agreement is for a period of 500 months at commencement. Tenants make monthly payments based on the individual contractual agreement. There are no other payments, such as residual guarantee or termination penalties, not previously included in the measurement of the lease receivable reflected as inflows of resources. As of June 30, 2023, the total receivable for the leased buildings and space was approximately \$22,648,000 and deferred inflows approximately \$21,630,000.

Subscription Information Technology Arrangements

The Company adopted GASB No. 96 as of July 1, 2022. As such, the Company recognized a subscription liability and a subscription right-to-use asset whereby a contract has conveyed control of the right for the Company to use another party's information technology for a period of one year or greater. Following is a description of these arrangements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

11. Commitments and Contingencies (continued)

The Company has 26 active subscription agreements, representing a variety of subscription-based information technology software platforms. The subscriptions are necessary to support medical records, patient billing, accounting and delivery of certain services in providing health care services to patients in the region. There are no other payments or termination penalties not previously included in the measurement of the subscription liability reflected as outflows of resources. As of June 30, 2023, the subscription asset, net of amortization, is approximately \$10,461,000 and is recorded in capital assets, net in the consolidated basic statement of net position.

The following is a schedule, by year, of the principal and interest requirements to maturity for subscription liabilities for each of the five subsequent fiscal years and in five-year increments thereafter as of June 30, 2023 (*dollars in thousands*):

Fiscal year ending:	
2024	\$ 3,669
2025	2,966
2026	2,140
2027	1,508
2028	776
Thereafter	<u>1,015</u>
Total minimum subscription payments	12,074
Less amount representing interest	<u>(1,219)</u>
Present value of net minimum subscription payments	10,855
Less subscription liabilities, current portion	<u>(3,205)</u>
Subscription liabilities, noncurrent portion	<u>\$ 7,650</u>

Construction and Other Commitments

The Company has contracts for construction and remodeling of facilities and for the purchase and maintenance of computer application software for its core operation systems.

The remaining commitments relating to these contracts are \$27,509,000, which includes retainage of \$5,829,000 at June 30, 2023.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

11. Commitments and Contingencies (continued)

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.

SJMC could be subject to malpractice claims in excess of insurance coverage through UFJSIP or UFHEIC; however, the approximate 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 participates with other related-party employers controlled by UF in a self-insurance plan (“GatorCare”) for employee health and pharmaceutical coverage. GatorCare Health Management Corporation, Inc. (“GCHMC”), a Florida not-for-profit corporation, was incorporated to coordinate and facilitate the management of GatorCare. Funding amounts collected by GCHMC are determined by the level of benefits coverage selected by each employee and to cover administrative costs of the plan. Cash held by GCHMC is largely restricted for payments of self-insured health and pharmacy claims of the Company and the related-party employers, with the remaining cash available to cover the administrative functions of GCHMC.

Expenses, net of employee contributions, related to the self-insured health and pharmaceutical plans for the fiscal year ended June 30, 2023, were approximately \$37,632,000.

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 fiscal year ended June 30, 2023, was approximately \$969,000.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

11. Commitments and Contingencies (continued)

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 nonprofit hospitals related to charity care. These lawsuits allege various hospital practices related to the uninsured, including, among other things, charging uninsured patients more than what insurers would pay for the same services, rapidly rising prices and aggressive collection policies. Management believes that 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 review 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

11. Commitments and Contingencies (continued)

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 \$5,696,000 for the fiscal year ended June 30, 2023. At June 30, 2023, the Company owed Shands approximately \$580,000.

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 \$93,504,000 for the fiscal year ended June 30, 2023, of which approximately \$43,557,000 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, 2023, payables related to this arrangement amounted to approximately \$7,171,000 and are included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

At June 30, 2023, the Company has a note payable ("2011 Shands Note Payable") of approximately \$10,195,000 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 \$1,170,000 is included within long-term debt, current portion, and the long-term portion of the note payable of approximately \$9,025,000 is included within long-term debt, noncurrent portion, at June 30, 2023, in the accompanying consolidated basic statement of net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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:

	<u>2023</u>
Medicare	27%
Medicaid	10
Managed care	26
Other payors	37
	<u>100%</u>

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

14. 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. 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 significant 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. During 2020, the Company also received approximately \$75,136,000 as part of the

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

14. COVID-19 Pandemic (continued)

expanded Medicare Accelerated and Advance Payment Program under the CARES Act. As of June 30, 2022, the Company repaid approximately \$53,700,000 of Medicare Accelerated and Advance Payment Program funds and has \$21,400,000 outstanding and recorded as liabilities in estimated third-party payor settlements in the consolidated basic statement of net position, which were subsequently paid in full so that no balance is outstanding at June 30, 2023.

The CARES Act 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 was paid in December 2021, and the remaining half was repaid in December 2022, so no balance is outstanding at June 30, 2023.

15. Subsequent Events

The Company has assessed the impact of subsequent events through September 26, 2023, the date the consolidated basic financial statements were available to be issued, and has concluded that there 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)
(dollars in thousands)

June 30, 2014 Through June 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension (asset) liability	(1.7)%	7.2%	6.8%	4.5%	1.2%	0.5%	15.2%	14.5%	4.0%	11.5%
Proportionate share of the net pension (asset) liability	\$ 413	\$(15,907)	\$(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	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	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	99.3%	126.7%	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 2023:

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

The interest credit assumption was updated to 3.29% for 2021/2022 and 3.42% for 2022/2023 to reflect the actual rate in effect for the year.

The cost-of-living assumption was updated to 3.00% for 2021/2022 and 3.00% for 2022/2023.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Schedule of the Company's Proportionate Share of the Net Pension (Asset) Liability
(Unaudited) (continued)
(dollars in thousands)

Changes in assumptions 2022:

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

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

Changes in assumptions 2021:

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

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

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

Changes in assumptions 2020:

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

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

Changes in assumptions 2019:

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

Changes in assumptions 2018:

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Schedule of the Company's Proportionate Share of the Net Pension (Asset) Liability
(Unaudited) (continued)
(dollars in thousands)

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.

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)
(dollars in thousands)

July 1, 2014 Through June 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	208	-	622	965	1,333	2,017	2,071	1,241
Contribution excess	<u>\$ (208)</u>	<u>\$ -</u>	<u>\$ (622)</u>	<u>\$ (965)</u>	<u>\$ (1,333)</u>	<u>\$ (2,017)</u>	<u>\$ (2,071)</u>	<u>\$ (1,241)</u>

Notes to Schedule

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

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

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

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

	2023	2022	2021	2020	2019
Valuation date	July 1, 2022	July 1, 2021	July 1, 2020	July 1, 2019	July 1, 2018
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit	Unit Credit	Unit Credit
Asset valuation method	2-year smoothing	2-year smoothing	2-year smoothing	2-year smoothing	2-year smoothing
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Discount rates	PPA segmented yield curve rates of 4.75% for the first 5 years, 5.18% for the next 15 years, and 5.92% thereafter	PPA segmented yield curve rates of 4.75% for the first 5 years, 5.36% for the next 15 years, and 6.11% thereafter	PPA segmented yield curve rates of 3.64% for the first 5 years, 5.21% for the next 15 years, and 5.94% thereafter	PPA segmented yield curve rates of 3.74% for the first 5 years, 5.35% for the next 15 years, and 6.11% thereafter	PPA segmented yield curve rates of 3.92% for the first 5 years, 5.52% for the next 15 years, and 6.29% thereafter
Retirement age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age
Mortality	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the IRS methodology and projection scale MP-2020.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the IRS methodology and projection scale MP-2019.	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2014 mortality tables, with improvements beyond 2006 removed with static mortality improvements based on the 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, 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Schedule of Employer Contributions (Unaudited) (continued)
(dollars in thousands)

	2018	2017	2016	2015
Valuation date	July 1, 2017	July 1, 2016	July 1, 2015	July 1, 2014
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit	Unit Credit
Asset valuation method	2-year smoothing	Market value including receivables	Market value including receivables	Market value including receivables
Inflation	2.00%	2.00%	2.00%	2.50%
Discount rates	PPA segmented yield curve rates of 4.16% for the first 5 years, 5.72% for the next 15 years, and 6.48% thereafter	6.50%	6.50%	7.25%
Retirement age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age	Traditional plan and retirement growth account retirement rates vary by age
Mortality	IRC Section 430(h)(3) prescribed static annuitant and non-annuitant mortality tables. These tables are based on the RP-2000 mortality tables and projected with improvement to the valuation 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 (dollars in thousands)

June 30, 2023

	Shands Jacksonville Medical Center Obligated Group⁽¹⁾	Other	Eliminations	Consolidated Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 77,932	\$ 5,703	\$ –	\$ 83,635
Short-term investments	3,142	–	–	3,142
Patient accounts receivable, net	124,645	–	–	124,645
Due from city and state agencies	20,172	–	–	20,172
Inventories	19,701	–	–	19,701
Prepaid expenses and other current assets	77,364	39,029	(95,045)	21,348
Assets whose use is restricted, current portion	5,832	–	–	5,832
Estimated third-party payor settlements	26,393	–	–	26,393
Total current assets	<u>355,181</u>	<u>44,732</u>	<u>(95,045)</u>	<u>304,868</u>
Assets whose use is restricted, less current portion	157,396	–	–	157,396
Capital assets, net	454,484	30,847	–	485,331
Other assets	24,430	11,857	–	36,287
Total assets	<u>991,491</u>	<u>87,436</u>	<u>(95,045)</u>	<u>983,882</u>
Deferred outflows of resources				
Accumulated decrease in fair value of hedge derivatives	3,873	–	–	3,873
Deferred loss on debt refunding	4,498	–	–	4,498
Deferred other post-employment benefits outflows	371	–	–	371
Deferred pension outflows	10,584	–	–	10,584
Total deferred outflows of resources	<u>19,326</u>	<u>–</u>	<u>–</u>	<u>19,326</u>

⁽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 Net Position (continued)
(dollars in thousands)

June 30, 2023

	Shands Jacksonville Medical Center Obligated Group⁽¹⁾	Other	Eliminations	Consolidated Total
Liabilities				
Current liabilities:				
Long-term debt, current portion	\$ 1,170	\$ –	\$ –	\$ 1,170
Lease obligations, current portion	9,394	735	–	10,129
Subscription liabilities, current portion	3,205	–	–	3,205
Accounts payable and accrued expenses	159,949	48,246	(95,045)	113,150
Accrued salaries and leave payable	29,017	–	–	29,017
Estimated third-party payor settlements	31,709	–	–	31,709
Total current liabilities	<u>234,444</u>	<u>48,981</u>	<u>(95,045)</u>	<u>188,380</u>
Long-term liabilities:				
Long-term debt, noncurrent portion	444,518	–	–	444,518
Lease obligations, noncurrent portion	79,671	11,965	–	91,636
Subscription liabilities, noncurrent portion	7,650	–	–	7,650
Other liabilities	13,049	6	–	13,055
Total long-term liabilities	<u>544,888</u>	<u>11,971</u>	<u>–</u>	<u>556,859</u>
Total liabilities	<u>779,332</u>	<u>60,952</u>	<u>(95,045)</u>	<u>745,239</u>
Deferred inflows of resources				
Deferred other post-employment benefits inflows				
	1,649	–	–	1,649
Deferred pension inflows	2,050	–	–	2,050
Deferred inflow leases	12,607	9,023	–	21,630
Total deferred inflows of resources	<u>16,306</u>	<u>9,023</u>	<u>–</u>	<u>25,329</u>
Net position				
Net investment in capital assets	146,239	18,146	–	164,385
Restricted:				
Expendable	3,769	1,257	–	5,026
Unrestricted (deficit)	65,171	(1,942)	–	63,229
Total net position	<u>\$ 215,179</u>	<u>\$ 17,461</u>	<u>\$ –</u>	<u>\$ 232,640</u>

⁽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
(dollars in thousands)

Year Ended June 30, 2023

	Shands Jacksonville Medical Center Obligated Group⁽¹⁾	Other	Eliminations	Consolidated Total
Operating revenues				
Net patient service revenue, net of provision for bad debts of \$117,765	\$ 861,446	\$ -	\$ -	\$ 861,446
Other operating revenue	24,496	2,004	(166)	26,334
Total operating revenues	<u>885,942</u>	<u>2,004</u>	<u>(166)</u>	<u>887,780</u>
Operating expenses				
Salaries and benefits	439,717	-	-	439,717
Supplies and services	467,248	1,203	(166)	468,285
Depreciation and amortization	41,995	1,832	-	43,827
Total operating expenses	<u>948,960</u>	<u>3,035</u>	<u>(166)</u>	<u>951,829</u>
Operating loss	<u>(63,018)</u>	<u>(1,031)</u>	<u>-</u>	<u>(64,049)</u>
Nonoperating revenues (expenses)				
Interest expense	(18,531)	(345)	-	(18,876)
Net investment gain, including change in fair value	8,997	226	-	9,223
Loss on Lease Modification	(2)	-	-	(2)
Gain on disposal of capital assets, net	3	-	-	3
Other nonoperating loss, net	(5,149)	-	-	(5,149)
Total nonoperating expenses, net	<u>(14,682)</u>	<u>(119)</u>	<u>-</u>	<u>(14,801)</u>
Deficit of revenues over expenses before capital contributions	(77,700)	(1,150)	-	(78,850)
City of Jacksonville capital grant	24,223	-	-	24,223
Capital contributions, net	1,043	-	-	1,043
Decrease in net position	<u>(52,434)</u>	<u>(1,150)</u>	<u>-</u>	<u>(53,584)</u>
Net position				
Beginning of year	267,613	18,611	-	286,224
End of year	<u>\$ 215,179</u>	<u>\$ 17,461</u>	<u>\$ -</u>	<u>\$ 232,640</u>

⁽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

Note to Supplemental Consolidating Information

June 30, 2023

Note to Supplemental Consolidating Information

The accompanying consolidating information presents the financial position and results of operations of members of the obligated group and other components of the Company as of June 30, 2023, 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



Ernst & Young LLP
One Tampa City Center
Suite 2400
201 North Franklin Street
Tampa, FL 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

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

Management and the Board of Directors
Shands Jacksonville HealthCare, Inc.

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

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Ernst + Young LLP

September 26, 2023

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