

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Years Ended June 30, 2024 and 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

Years Ended June 30, 2024 and 2023

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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 years ended June 30, 2024 and 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 "basic 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, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. 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 20, the schedule of the Company's proportionate share of the net pension (asset) liability (unaudited) on page 80 and the schedule of employer contributions (unaudited) on page 83 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We

have applied certain limited procedures to the required supplementary information in accordance with 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Company's basic financial statements. The supplementary consolidating information on pages 85 through 90 is presented for purposes of additional analysis and is not required to be part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2024 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, 2024

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 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, 2024, with comparative information as of and for the fiscal year ended June 30, 2023. 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 that constructed a new medical office building in which the Company leases space that includes a free-standing emergency department, surgical suites and other hospital based operations (commonly referred to as "North Phase I"). On May 23, 2017, the Company completed construction on a new 92-bed tower (commonly referred to as "North Phase II"), which adjoins North Phase I, while simultaneously converting rooms at its original location (known as "Downtown") from semi-private to private, so the new bed tower did not increase the Company's total licensed beds, which remained at 695. During 2024, the Company renovated space that added 20 licensed beds on the Downtown campus, for a total of 715 at June 30, 2024.

On March 31, 2022, the Company broke ground on a second bed tower (commonly referred to as "North Phase III"), which will add 76 acute care beds increasing total licensed beds to 791, of which 60 beds opened in July 2024. In addition, North Phase III will include 48 inpatient rehabilitation beds, as noted below.

In February 2024, Hospital Holdings Corporation, an affiliate of Select Medical Corporation ("Select"), and SJMC formed Duval Rehabilitation, LLC ("Duval Rehab") for the purpose of owning and operating the 48 inpatient rehabilitation beds, as mentioned above, which will be a hospital within a hospital located within North Phase III. Operations began September 24, 2024. SJMC holds a 49% minority interest in Duval Rehab and Select holds the remaining 51% majority interest. When formed, SJMC contributed \$2.9 million to Duval Rehab, which is recorded as an investment in the consolidated basic statement of net position as of June 30, 2024. The beds will be managed by Select Unit Management, Inc.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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, commencing September 1, 2020. Upon construction completion, the Company was 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 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 No. 87 and recorded as a right-to-use lease asset in capital assets, net and a corresponding increase in lease obligations recorded in the June 30, 2022 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 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 June 30, 2022 consolidated basic statement of net position, as of July 1, 2021.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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 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 years ended June 30, 2024 and 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."

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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

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

Financial Analysis of the Company

Consolidated Basic Statement of Net Position

The Company's net position is one indicator of the current financial condition of the Company. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. They also provide the basis for evaluating the capital structure, as well as assessing the liquidity and financial flexibility of the Company. However, the financial statement user should consider other nonfinancial factors, such as changes in economic conditions, population changes, regulations and government legislation affecting the health care industry. Assets, liabilities and deferred inflows and outflows of resources are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

	2024	June 30 2023	2022
	<i>(Dollars in Thousands)</i>		
Cash and cash equivalents and short-term investments	\$ 141,484	\$ 86,777	\$ 145,115
Other current assets	210,931	218,091	216,573
Capital assets, net	576,170	485,331	344,498
Other noncurrent assets	121,861	193,683	286,548
Total assets	<u>1,050,446</u>	<u>983,882</u>	<u>992,734</u>
Deferred outflows of resources	<u>17,998</u>	<u>19,326</u>	<u>10,876</u>
Current liabilities	214,072	188,380	158,628
Noncurrent liabilities	563,863	556,859	527,232
Total liabilities	<u>777,935</u>	<u>745,239</u>	<u>685,860</u>
Deferred inflows of resources	<u>21,694</u>	<u>25,329</u>	<u>31,526</u>
Net position			
Net investment in capital assets	261,471	164,385	55,768
Restricted:			
Expendable	5,026	5,026	5,026
Unrestricted	2,318	63,229	225,430
Total net position	<u>\$ 268,815</u>	<u>\$ 232,640</u>	<u>\$ 286,224</u>

During 2024, cash and cash equivalents and short-term investments increased by approximately \$54.7 million, or 63.0%. Cash provided by operations was approximately \$119.9 million. 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 decreased by approximately \$7.2 million, or 3.3% during 2024. The decrease is mainly due to a \$24.5 million decrease in net patient accounts receivable; a \$19.2 million decrease in estimated third-party receivable; and a \$5.8 million decrease in assets limited as to use for swap collateral; offset by a \$39.4 million increase in due from city and state agencies; \$1.7 million increase in inventories; and \$1.2 million increase in prepaid expense and other current assets. During 2023, other current assets increased by approximately \$1.5 million, or 0.7%. The increase is mainly due to \$20.4 million increase in estimated third-party receivable; a \$4.0 million

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

increase in assets limited as to use for swap collateral and a \$1.9 million increase in prepaid expense and 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 \$90.8 million, or 18.7% during 2024, with capital assets increasing by \$137.4 million offset by a \$46.6 million increase in accumulated depreciation. The capital asset increase is primarily related to the construction of the new North Phase III bed tower, and includes \$16.2 million for a capital grants provided by the City of Jacksonville and the Florida Department of Health, as discussed further below. During 2023, capital assets, net, increased approximately \$140.8 million, or 40.9%, 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 \$71.8 million, or 37.1% during 2024, primarily due to a net \$91.0 million decrease in cash held in trust mainly from Series 2022 project fund draws for construction of the new North Phase III bed tower offset by investment earnings on those funds; a \$2.3 million decrease in lease receivable; offset by a \$14.8 million increase in funds received from the Florida Department of Health for a capital grant, as described further below; a \$2.9 million capital contribution investment in Duval Rehab, described above; a \$2.6 million increase of contributed capital in a direct service organization (GatorCare Health Management Corporation) that provides employee health plans; and a \$1.2 million increase in deposits. During 2023, other noncurrent assets decreased \$92.8 million, or 32.4%, 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 2024, deferred outflows of resources decreased by approximately \$1.3 million, or 6.9%, primarily related to a of a \$0.8 million decrease in pension deferred outflows and a \$0.6 million decrease attributed to the deferred outflow loss related to debt refundings upon issuance of the series 2022A and 2022B bonds discussed further below. During 2023, deferred outflows of

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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; and a decrease of \$0.2 million attributed to the other post-employment benefits.

During 2024, current liabilities increased by \$25.7 million, or 13.6%, primarily related to a \$27.7 million increase for estimated third-party liabilities; a \$3.4 million increase in salaries and benefits because of pay date timing differences; a \$3.1 million increase in leave payable; a \$1.4 million increase in the current portion due on long-term debt, lease obligations and subscription liabilities; and offset by a \$6.7 million decrease in patient credit balances and a \$3.2 million decrease in accounts payable. 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.

Noncurrent liabilities increased approximately \$7.0 million, or 1.3%, during 2024, primarily due to \$15.4 million increase in deferred revenue, which is primarily related to a grant advance received from the Florida Department of Health, as described further below; a \$0.8 million increase in pension liability; offset by a \$8.9 million decrease in non-current portion of long term debt from repayment of principal and amortization of bond premiums, lease obligations and subscription liabilities; and a \$0.4 million decrease in post-retirement benefits liability. During 2023, noncurrent liabilities increased approximately \$29.6 million, or 5.6%, 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 2024, deferred inflows of resources decreased \$3.6 million, or 14.4%, attributed primarily to a \$3.0 million decrease in deferred inflow leases; a \$0.4 million decrease in pension plan; and a \$0.2 million decrease in deferred inflow post-retirement benefits. 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

As of June 30, 2024, the Company has approximately \$442.4 million in debt outstanding compared to approximately \$445.7 million at June 30, 2023. As of June 30, 2024, the Company has approximately \$93.6 million of lease obligations, compared with approximately \$101.8 million of lease obligations at June 30, 2023. As of June 30, 2024, the Company has approximately \$14.7 million of subscription liabilities, compared with approximately \$10.9 million at June 30, 2023, after implementation of GASB No. 96 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 (the First Amendment) to September 18, 2023 and then extended again on November 13, 2023 (the Second Amendment) to September 16, 2024. 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 refunded upon issuance of the Series 2022 A&B bonds. The full \$10.0 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. The full \$10.0 million was then received on November 15, 2023 and repaid in full on March 4, 2024. There were no balances outstanding at June 30, 2024, 2023 or 2022.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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 \$9.0 million as of June 30, 2024, \$10.2 million as of June 30, 2023 and \$11.3 million at June 30, 2022.

Effective October 6, 2023, Shands provided a guarantee related to the Company's total return swap related to the Series 2015 \$85.0 million bonds. Effective October 20, 2023, Shands provided the Company a \$35.0 million revolving line of credit with final maturity June 30, 2024. At June 30, 2024, no balance is outstanding and an extension has not been executed.

The Company was in compliance with all financial covenants as of June 30, 2024. 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 successfully took 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. Amounts shown below for June 30, 2022 have not been restated to reflect the adoption of GASB No. 96.

	<u>2024</u>	<u>June 30 2023</u>	<u>2022</u>
	<i>(Dollars in Thousands)</i>		
Net patient service revenue	\$ 1,089,771	\$ 861,446	\$ 887,062
Other operating revenue	26,744	26,334	21,371
Total operating revenues	1,116,515	887,780	908,433
Operating expenses	1,079,805	951,829	915,347
Operating gain (loss)	36,710	(64,049)	(6,914)
Nonoperating (expense) revenue, net	(17,524)	(14,801)	3,576
Excess (deficit) of revenues over expenses before capital contributions	19,186	(78,850)	(3,338)
Other changes in net position:			
Capital grants	16,932	24,223	14,275
Capital contributions, net	57	1,043	—
Increase (decrease) in net position	36,175	(53,584)	10,937
Net position			
Beginning of year	232,640	286,224	275,287
End of year	<u>\$ 268,815</u>	<u>\$ 232,640</u>	<u>\$ 286,224</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Patient Volumes

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

	2024	2023	2022
Inpatient admissions	28,089	25,268	25,218
Outpatient visits	617,959	560,924	563,915

During 2024, inpatient admissions, excluding observation cases, increased by 2,821 or 11.2%. Outpatient visits increased by 57,035 or 10.2%, related primarily to the opening of 3 new FSEDs, as noted above.

During 2023, inpatient admissions, excluding observation cases, increased by 50 or 0.2%. Outpatient visits decreased by 2,991 or 0.5%.

Operating Revenues

During 2024, patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, increased approximately \$228.3 million, or 26.5%, primarily from stronger inpatient admissions, noted above, favorable third-party reimbursement settlements and a \$71.8 million increase in city and state agencies support. 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, 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 \$0.4 million, or 1.6%, during 2024. During 2023, other operating revenue increased approximately \$5.0 million, or 23.2%, primarily from contract services and grant revenue.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Operating Expenses

During 2024, operating expenses increased approximately \$128.0 million, or 13.4%. Salaries and benefits increased approximately \$23.2 million, or 5.3%, which primarily relates to additional staff for FSEDs, as noted above, and both merit increases and market adjustments. Supplies and services increased approximately \$97.6 million, or 20.8%, mainly due to a \$42.1 million increase in transfers and expenditures in support of the University of Florida and its medical programs; a \$26.6 million increase in medical supplies, related to pharmacy, implants and other general medical supply costs; a \$16.4 million increase in purchased services, primarily related to repair and maintenance, marketing, patient financial services, dietary services, and three new FSEDs, as noted above; a \$8.1 million increase in professional fees, primarily related to residents and three new FSEDs, as noted above; a \$4.3 million increase associated with the Medicaid DPP special assessment; a \$0.3 million increase in insurance; a \$0.3 million increase in AHCA assessment; a \$0.2 million increase in other direct costs; which are offset by a \$0.3 million decrease in lease/rental expense; a \$0.2 million decrease in utilities; and a \$0.2 million decrease in non-medical supplies. Depreciation and amortization expense increased \$7.1 million, or 16.2%, related primarily to major moveable equipment and the new FSEDs, as noted above.

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 and market adjustments. 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%.

Nonoperating Revenues (Expenses), Net

Nonoperating expenses, net, for fiscal year 2024, were approximately \$17.5 million, which includes interest expense of approximately \$21.0 million; \$3.6 million other nonoperating loss for a non-capital contribution; \$0.1 million loss on lease modification; offset by net investment gain of approximately \$7.2 million (including the increase in fair value of approximately \$0.1 million).

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Nonoperating expenses, net, for fiscal year 2023, were approximately \$14.8 million, which includes interest expense of approximately \$18.9 million and \$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).

Capital Grants

On March 20, 2019, SJMC executed an agreement with the City of Jacksonville ("City") for capital improvements to City owned property leased by SJMC on its Downtown campus. The initial agreement allocated \$120 million over a six-year period. Recently, an additional \$20 million was approved bringing the total to \$140 million. 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 2024, the Company is expecting \$140 million through year six (6) of the six-year period. Approved amounts are paid to SJMC as reimbursement for amounts SJMC has paid directly to vendors. For the periods ended June 30, 2024 and 2023, approximately \$15.1 million and \$24.2 million, respectively, was recognized as capital grant revenue in the consolidated basic statement of revenues, expenses and changes in net position.

On May 11, 2023, a memo of understanding was executed between the Florida Department of Health and SJMC. It provides for a fixed capital outlay grant to plan, develop, construct and renovate the emergency department and trauma center on the Downtown campus, as described in a Letter of Intent executed November 1, 2022. The project will honor the late Leon L. Haley, Jr., MD, former CEO of the Company. The cost reimbursement grant maximum is \$80 million of which \$16 million was advanced on July 22, 2023. The grant requires a \$10 million match, which will be provided by the City. For the period ended June 30, 2024, approximately \$1.2 million was recognized as capital grant revenue in the consolidated basic statement of revenues, expenses and changes in net position and approximately \$14.8 million is recorded as assets whose use is restricted in the consolidated basic statement of net position.

On July 12, 2023, SJMC received a notice of award from the Department of Health and Human Services, Health Resources and Services Administration ("HRSA"), for approximately \$0.7 million. As a construction award activity type from HRSA's Health Facilities Construction and Equipment account, the project provides for the complete demolition of an existing vacant office suite, design and construction within the space, and new furniture, fixtures and equipment. The renovated office suite is near the core location to care for underserved patients. For the period ended June 30, 2024, approximately \$0.7 million was recognized as capital grant revenue in the consolidated basic statement of revenues, expenses and changes in net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Consolidated Basic Statements of Cash Flows

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

During 2024, cash and cash equivalents increased by approximately \$54.5 million, or 65.2%. Cash inflows were primarily related to net cash received from patients and third-party payors of \$1,111.6 million; \$104.6 million redemption of short-term investments and assets limited as to use; \$34.4 million from capital grants and contributions; \$26.2 million from other receipts from operations; \$10.0 million from line of credit draw; \$7.1 million of investment income; and \$0.5 million proceeds from grants. Cash outflows were primarily related to cash used by operating activities paid to employees and vendors of \$1,018.0 million; payments for acquisition of capital assets of \$145.2 million; payments of long-term debt, lease obligations, subscription liabilities and interest of \$37.5 million; purchase of short-term investments and assets whose use is restricted of \$22.7 million; payment of line of credit of \$10.0 million; noncapital contributions of \$3.6 million; and investment in Duval Rehab of \$2.9 million.

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 from line of credit draw; a \$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; purchase of short-term investments of \$9.4 million; and noncapital contributions of \$8.6 million.

COVID-19 Pandemic

On March 13, 2020, former President Trump declared a national emergency in response to effects of a novel coronavirus ("COVID-19"), which evolved into a global pandemic. During periods when COVID-19 cases surge, the Company's operations and financial condition have been significantly impacted.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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. There were no significant surges during 2023 or 2024.

As a result of COVID-19's 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 \$75.1 million as part of the expanded Medicare Accelerated and Advance Payment Program under the CARES Act. As of June 30, 2022, the Company repaid approximately \$53.7 million of Medicare Accelerated and Advance Payment Program funds and had \$21.4 million 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 was 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 \$12.5 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, so no balance was outstanding at June 30, 2023.

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. Subsequently, for the periods ended June 30, 2024 and June 30, 2023, the Company recorded Medicaid DPP related funds of \$42.0 million and \$31.0 million, respectively, in patient service revenue, net of provision for bad debts in the consolidated basic statement of revenues, expenses and changes in net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

Credit Ratings

The Company's underlying credit rating of BBB- was reaffirmed by Fitch Ratings in November 2023, with a negative outlook. In February 2024 Moody's Investors Service reaffirmed the Company's credit rating of Ba1, and upgraded the outlook from negative to stable.

Consolidated Basic Financial Statements

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statements of Net Position (dollars in thousands)

	June 30	
	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 138,141	\$ 83,635
Short-term investments	3,343	3,142
Patient accounts receivable, net of allowance for uncollectibles of \$165,479 and \$139,864, respectively	100,112	124,645
Due from city and state agencies	59,548	20,172
Inventories	21,363	19,701
Prepaid expenses and other current assets	22,646	21,348
Assets whose use is restricted, current portion	72	5,832
Estimated third-party payor settlements	7,190	26,393
Total current assets	352,415	304,868
Assets whose use is restricted, less current portion	81,192	157,396
Capital assets, net	576,170	485,331
Investment in Duval Rehab	2,882	-
Other assets	37,787	36,287
Total assets	1,050,446	983,882
Deferred outflows of resources		
Accumulated decrease in fair value of hedge derivatives	3,880	3,873
Deferred loss on debt refunding	3,934	4,498
Deferred other post-employment benefits outflows	394	371
Deferred pension outflows	9,790	10,584
Total deferred outflows of resources	17,998	19,326
Liabilities		
Current liabilities:		
Long-term debt, current portion	1,224	1,170
Lease obligations, current portion	10,580	10,129
Subscription liabilities, current portion	4,055	3,205
Accounts payable and accrued expenses	103,287	113,150
Accrued salaries and leave payable	35,503	29,017
Estimated third-party payor settlements	59,423	31,709
Total current liabilities	214,072	188,380
Long-term liabilities:		
Long-term debt, noncurrent portion	441,195	444,518
Lease obligations, noncurrent portion	83,047	91,636
Subscription liabilities, noncurrent portion	10,689	7,650
Other liabilities	28,932	13,055
Total long-term liabilities	563,863	556,859
Total liabilities	777,935	745,239
Deferred inflows of resources		
Deferred other postemployment benefits inflows	1,394	1,649
Deferred pension inflows	1,633	2,050
Deferred inflow leases	18,667	21,630
Total deferred inflows of resources	21,694	25,329
Net position		
Net investment in capital assets	261,471	164,385
Restricted:		
Expendable	5,026	5,026
Unrestricted	2,318	63,229
Total net position	\$ 268,815	\$ 232,640

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statements of Revenues,
Expenses and Changes in Net Position
(dollars in thousands)

	Year Ended June 30	
	2024	2023
Operating revenues		
Net patient service revenue, net of provision for bad debts of \$123,624 and \$117,765, respectively	\$ 1,089,771	\$ 861,446
Other operating revenue	26,744	26,334
Total operating revenues	1,116,515	887,780
Operating expenses		
Salaries and benefits	462,944	439,717
Supplies and services	565,922	468,285
Depreciation and amortization	50,939	43,827
Total operating expenses	1,079,805	951,829
Operating gain (loss)	36,710	(64,049)
Nonoperating revenues (expenses)		
Interest expense	(20,972)	(18,876)
Net investment gain, including change in fair value	7,181	9,223
Loss on lease modification	(126)	(2)
Gain on disposal of capital assets, net	36	3
Other nonoperating loss, net	(3,643)	(5,149)
Total nonoperating expenses, net	(17,524)	(14,801)
Excess (deficit) of revenues over expenses before capital contributions	19,186	(78,850)
Capital grants	16,932	24,223
Capital contributions, net	57	1,043
Increase (decrease) in net position	36,175	(53,584)
Net position		
Beginning of year	232,640	286,224
End of year	\$ 268,815	\$ 232,640

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidated Basic Statements of Cash Flows
(dollars in thousands)

	Year Ended June 30	
	2024	2023
Operating activities		
Cash received from patients and third-party payors	\$ 1,111,605	\$ 869,670
Other receipts from operations	26,202	24,484
Salaries and benefits paid to employees	(458,413)	(449,166)
Payments to suppliers and vendors	(559,542)	(452,718)
Net cash provided by (used in) operating activities	119,852	(7,730)
Noncapital financing activities		
Proceeds from short-term debt	10,000	10,000
Interest paid	(439)	(491)
Proceeds from grant	510	464
Noncapital contribution	(3,643)	(8,582)
Payments of short-term financing	(10,000)	(10,000)
Payments of long-term debt	(1,170)	(1,119)
Net cash used in noncapital financing activities	(4,742)	(9,728)
Capital and related financing activities		
Payments for capital assets	(145,203)	(121,312)
Proceeds from sale of capital assets	19	23
Payments of long-term debt, lease obligations and subscription liabilities	(13,867)	(14,921)
Interest paid	(22,052)	(16,888)
Capital grants	34,383	24,031
Capital contributions	57	1,043
Net cash used in capital and related financing activities	(146,663)	(128,024)
Investing activities		
Investment income received	7,063	6,717
Investment in Duval Rehab	(2,882)	-
Redemption of short-term investments and assets whose use is restricted	104,550	111,132
Purchase of short-term investments and assets whose use is restricted	(22,672)	(9,431)
Net cash provided by investing activities	86,059	108,418
Net increase (decrease) in cash and cash equivalents	54,506	(37,064)
Cash and cash equivalents		
Beginning of year	83,635	120,699
End of year	\$ 138,141	\$ 83,635

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

	Year Ended June 30	
	2024	2023
Reconciliation of operating loss to net cash used in operating activities		
Operating gain (loss)	\$ 36,710	\$ (64,049)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	50,939	43,827
Provision for bad debts	123,624	117,765
Changes in:		
Patient accounts receivable	(141,777)	(93,004)
Prepaid expenses, inventories and other current assets	(2,253)	1,751
Other assets	(730)	3,645
Accounts payable and accrued expenses	9,540	7,983
Estimated third-party payor settlements	46,917	(20,209)
Other liabilities	(3,118)	(5,439)
Total adjustments	<u>83,142</u>	<u>56,319</u>
Net cash provided by (used in) operating activities	<u>\$ 119,852</u>	<u>(7,730)</u>
Disclosure of supplemental cash flow information		
Net increase in fair value of investments	\$ 115	\$ 2,535
Net change in fair value of nonhedged derivatives and other nonoperating gains	(3,643)	(5,149)
Accrued purchases of property and equipment	14,576	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, 2024 and 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.

Effective February 15, 2024, Hospital Holdings Corporation, an affiliate of Select Medical Corporation (“Select”), and SJMC formed Duval Rehabilitation, LLC (“Duval Rehab”) for the purpose of owning and operating the 48 inpatient rehabilitation beds, as a hospital within a hospital located in a bed tower in northern Jacksonville. Operations are expected to begin during September 2024. SJMC holds a 49% minority interest in Duval Rehab and Select holds the remaining 51% majority interest. When formed, SJMC contributed \$2,882,000 to Duval Rehab, which is recorded as an investment in the consolidated basic statement of net position as of June 30, 2024.

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States, including all applicable effective statements of the Governmental Accounting Standards Board (“GASB”), on the accrual basis of accounting and include the accounts of the Company and its subsidiaries. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investment in Duval Rehab, a minority interest in an unconsolidated affiliate, is recorded in the accompanying consolidated basic statement of net position. Investment gains (losses) are recorded in other nonoperating revenues (expenses), net in the accompanying consolidated basic statement of revenues, expenses, and changes in net position.

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

Inventories

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

Assets Whose Use Is Restricted

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

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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 \$35,988,000 and \$38,088,000 of net unamortized original premiums for the Series 2015 and 2022A Bonds at June 30, 2024 and 2023, respectively, which will be amortized over the remaining periods of the obligations using the effective interest method.

Deferred Outflows and Inflows of Resources

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 \$22,540,000 and \$19,414,000 as of June 30, 2024 and 2023, respectively, and is included in accrued salaries and leave payable in the accompanying consolidated basic statement of net position.

Defined Benefit Pension Plan

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

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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. Interest expense; net investment gain, including change in fair value; loss on lease modification; 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, 2024, net patient service revenue decreased by approximately \$15,466,000 and for the fiscal year ended June 30, 2023, net patient service revenue increased by approximately \$15,116,000 due to such adjustments.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 26% and 28% of the Company's net patient service revenue for the fiscal years ended June 30, 2024 and 2023, respectively, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge.

These rates vary according to a patient classification system, Diagnosis Related Groups, that is based on clinical, diagnostic and other factors.

Inpatient nonacute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Company is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits by the Medicare fiscal intermediary. The Company's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2024, 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 6% and 9% of the Company's net patient service revenue for the fiscal years ended June 30, 2024 and 2023, respectively, was derived from services

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 through the Low Income Pool (“LIP”) program to reflect the additional costs associated with treating the Medicaid and uninsured 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, 2024, the LIP cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2021.

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

Other Third-Party Payors

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

Provision for Bad Debts and Allowance for Uncollectible Accounts

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Risk Management

The Company is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters in excess of self-insured limits. Settled claims have not exceeded this commercial coverage for the fiscal years ended June 30, 2024 and 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 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 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 were effective immediately. The requirements of paragraphs 11-25 of GASB No. 99 were effective for fiscal years beginning after June 15, 2022. The requirements of paragraphs 4-10 of GASB No. 99 were 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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

requirements of paragraphs 11–25 of GASB No. 99 during the fiscal year ended June 30, 2023. The Company adopted the requirements of paragraphs 4–10 of GASB No. 99 during the fiscal year ended June 30, 2024, the impacts of which were not material to the Company or disclosed elsewhere herein.

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 adopted the requirements of GASB No. 100 during the fiscal year ended June 30, 2024, the impacts of which were not material to the Company or disclosed elsewhere herein.

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 was effective for fiscal years beginning after December 15, 2023, with early adoption encouraged. The Company adopted the requirements of GASB No. 101 during the fiscal year ended June 30, 2024, the impacts of which were not material to the Company or disclosed elsewhere herein.

In December 2023, the GASB issued GASB Statement No. 102, *Certain Risk Disclosures* (“GASB No. 102”). The primary objective of GASB No. 102 is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. GASB No. 102 is effective for fiscal years beginning after June 15, 2024. The Company is currently evaluating the impact GASB No. 102 will have on its consolidated basic financial statements.

In April 2024, the GASB issued GASB Statement No. 103, *Financial Reporting Model Improvements* (“GASB No. 103”). The primary objective of GASB No. 103 is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. GASB No. 103 is effective for fiscal years beginning after June 15, 2025. The Company is currently evaluating the impact GASB No. 103 will have on its consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

3. Un-sponsored Community Benefit

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

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

The Company has policies providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and assets criteria. Because the Company does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. The Company maintains records to identify and monitor the level of financial assistance it provides. Charges forgone for services provided under the Company's financial assistance policy for the fiscal years ended June 30, 2024 and 2023, were approximately \$324,155,000 and \$331,916,000, respectively.

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

- Community health services include activities carried out to improve community health. They extend beyond patient care activities and are usually subsidized by the health care organization. Examples include community health education, counseling and support services, and health care screenings.
- Health professional education includes education provided in clinical settings such as internships and programs for physicians, nurses and allied health professionals. Also included are scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.

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 years ended, is as follows (*dollars in thousands*):

	Year Ended June 30	
	2024	2023
Financial assistance provided	\$ 62,984	\$ 67,183
Government support applied to charity care	(40,000)	(40,000)
Net unreimbursed financial assistance	22,984	27,183
Benefits for the broader community:		
Community health services	982	412
Health professions education	28,622	29,992
Total quantifiable benefits for the broader community	29,604	30,404
Total community benefits	\$ 52,588	\$ 57,587

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 statements of net position as follows (*dollars in thousands*):

	June 30	
	2024	2023
Current assets:		
Cash and cash equivalents	\$ 138,141	\$ 83,635
Short-term investments	3,343	3,142
Assets whose use is restricted, current portion	72	5,832
	<u>141,556</u>	<u>92,609</u>
Long-term assets:		
Assets whose use is restricted, less current portion	81,192	157,396
Investment in Duval Rehab	2,882	–
	<u>\$ 225,630</u>	<u>\$ 250,005</u>

The composition of cash, cash equivalents, investments and assets whose use is restricted at June 30, 2024 is as follows:

	Market Value	Investment Maturities		
		Less Than 1 Year	1–3 Years	N/A
		<i>(Dollars in Thousands)</i>		
Certificates of deposit	\$ 93	93	\$ –	\$ –
Florida Treasury Investment Pool (“SPIA”)	3,092	–	3,092	–
Money market funds	50,189	–	–	50,189
Investment in Duval Rehab	2,882	–	–	2,882
Bank deposits	169,374	–	–	169,374
	<u>\$ 225,630</u>	<u>\$ 93</u>	<u>\$ 3,092</u>	<u>\$ 222,445</u>

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 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 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 (*dollars in thousands*):

	June 30	
	2024	2023
Internally designated by the Board of Directors for clinical support, education, research and other health programs	\$ 19,500	\$ 19,500
Debt-related project funds	46,920	137,968
Florida Department of Health capital outlay grant	14,844	–
Held by bank as collateral for interest rate swaps	–	5,760
	<u>81,264</u>	<u>163,228</u>
Less current portion	(72)	(5,832)
Long-term portion	<u>\$ 81,192</u>	<u>\$ 157,396</u>

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 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.

The credit risk profile of the Company's investments and funds internally designated by the Board of Directors at June 30, 2024 and 2023 is as follows:

	Fair Value	Ratings		
		AAA	A-1/P-1	AA-f
<i>(Dollars in Thousands)</i>				
2024				
Certificates of deposit	\$ 93	\$ –	\$ 93	\$ –
Florida Treasury Investment Pool (“SPIA”)	3,092	–	–	3,092
Money market funds	50,189	50,189	–	–
	<u>\$ 53,374</u>	<u>\$ 50,189</u>	<u>\$ 93</u>	<u>\$ 3,092</u>
<i>(Dollars in Thousands)</i>				
2023				
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>

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)

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, 2024 and 2023, the Company did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk

As of June 30, 2024 and 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.

Investment gain, net for fiscal years as follows (*dollars in thousands*):

	<u>2024</u>	<u>2023</u>
Dividends and interest income	\$ 7,066	\$ 6,688
Net increase in the fair value of investments	115	2,535
Investment gain, net	<u>\$ 7,181</u>	<u>\$ 9,223</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

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 is as follows (*dollars in thousands*):

	June 30	
	2024	2023
Florida Treasury Investment Pool (“SPIA”)	\$ 3,092	\$ 2,919
Money market funds and certificates of deposit	50,282	141,134
Cash collateral on deposit with swap counterparty	–	5,760
	<u>\$ 53,374</u>	<u>\$ 149,813</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.

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

6. Capital Assets

A summary of changes in capital assets during fiscal year 2024 is as follows:

	Balance at June 30, 2023	Additions	Deletions	Transfers/ Adjustments	Balance at June 30, 2024
	<i>(Dollars in Thousands)</i>				
Land	\$ 24,194	\$ —	\$ —	\$ 327	\$ 24,521
Buildings	466,184	—	—	21,743	487,927
Equipment	319,351	—	(1,400)	28,530	346,481
Totals at historical cost	<u>809,729</u>	<u>—</u>	<u>(1,400)</u>	<u>50,600</u>	<u>858,929</u>
Less accumulated depreciation for:					
Buildings	(297,801)	(17,867)	—	—	(315,668)
Equipment	(280,204)	(17,059)	1,417	—	(295,846)
Total property, plant and equipment, net	<u>231,724</u>	<u>(34,926)</u>	<u>17</u>	<u>50,600</u>	<u>247,415</u>
Right-to-use asset under lease:					
Buildings	110,845	578	(737)	—	110,686
Equipment	10,186	1,947	(1,470)	—	10,663
Accumulated amortization	(22,324)	(12,562)	1,928	—	(32,958)
Total right-to-use-asset under lease, net	<u>98,707</u>	<u>(10,037)</u>	<u>(279)</u>	<u>—</u>	<u>88,391</u>
Right-to-use subscription asset	13,863	6,361	—	—	20,224
Accumulated amortization	(3,403)	(3,451)	948	—	(5,906)
Total right-to-use subscription asset, net	<u>10,460</u>	<u>2,910</u>	<u>948</u>	<u>—</u>	<u>14,318</u>
Construction-in-progress	144,440	132,206	—	(50,600)	226,046
Capital assets, net	<u>\$ 485,331</u>	<u>\$ 90,153</u>	<u>\$ 686</u>	<u>\$ —</u>	<u>\$ 576,170</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

6. Capital Assets (continued)

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	<u>785,264</u>	<u>–</u>	<u>(648)</u>	<u>25,113</u>	<u>809,729</u>
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	<u>235,691</u>	<u>(29,050)</u>	<u>(30)</u>	<u>25,113</u>	<u>231,724</u>
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	<u>77,028</u>	<u>21,681</u>	<u>(2)</u>	<u>–</u>	<u>98,707</u>
Right-to-use subscription asset	12,919	944	–	–	13,863
Accumulated amortization	–	(3,403)	–	–	(3,403)
Total right-to-use subscription asset, net	<u>12,919</u>	<u>(2,459)</u>	<u>–</u>	<u>–</u>	<u>10,460</u>
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>

Total depreciation and amortization expense were approximately \$50,939,000 and \$43,827,000 for the fiscal years ended June 30, 2024 and 2023, respectively, which includes right-to-use lease asset amortization of approximately \$12,562,000 and \$11,374,000, respectively, and right-to-use subscription asset amortization of approximately \$3,451,000 and \$3,402,000, respectively. Construction-in-progress at June 30, 2024 and 2023 consists primarily of costs incurred for the construction of various hospital buildings, building renovations and other related projects. subscription asset amortization of approximately.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities

Long-term debt comprises the following (*dollars in thousands*):

	June 30	
	2024	2023
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>315,145</u>
Taxable direct placement bonds:		
Series 2022B, UF Health Jacksonville Project	82,260	82,260
	<u>397,405</u>	<u>397,405</u>
Taxable notes:		
Direct borrowing notes:		
2011 Shands note payable	9,026	10,195
Lines of credit:		
Series 2019A, revolving line of credit	—	—
Revolving line of credit agreement	—	—
	<u>—</u>	<u>—</u>
	<u>406,431</u>	<u>407,600</u>
Net unamortized bond premium	35,988	38,088
Total long-term debt	442,419	445,688
Less long-term debt, current portion	(1,224)	(1,170)
Long-term portion	<u>\$ 441,195</u>	<u>\$ 444,518</u>

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, 2023	Additions	Reductions	Balance at June 30, 2024	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	10,195	—	(1,169)	9,026	1,224
Lines of credit:					
Series 2019A, revolving line of credit	—	10,000	(10,000)	—	—
Revolving line of credit agreement	—	—	—	—	—
	<u>—</u>	<u>10,000</u>	<u>(10,000)</u>	<u>—</u>	<u>—</u>
	<u>\$ 407,600</u>	<u>\$ 10,000</u>	<u>\$ (11,169)</u>	<u>\$ 406,431</u>	<u>\$ 1,224</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities (continued)

	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>\$ (11,119)</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:		
2025	\$ 1,224	\$ 17,772
2026	3,565	17,715
2027	3,743	17,536
2028	3,929	17,348
2029	4,133	17,150
2030–34	113,197	75,915
2035–39	56,955	57,468
2040–44	69,085	42,278
2045–49	86,915	24,726
2050–54	63,685	4,525
	<u>\$ 406,431</u>	<u>\$ 292,433</u>

Cash paid for interest was approximately \$22,491,000 and \$17,379,000 for the fiscal years ended June 30, 2024 and 2023, respectively.

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 and the revolving line of credit agreement.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities (continued)

Revolving Line of Credit Agreement

On October 20, 2023, the Company entered into a revolving line of agreement with Shands. The agreement provides the Company with a \$35 million revolving line of credit, with maturity on June 30, 2024. As of the date that these financial statements are available to be issued, an extension has not been executed. At June 30, 2024, the line of credit is unused and no balance is due.

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 \$220,000 and \$295,000 remaining at June 30, 2024 and 2023, respectively. 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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

7. Long-Term Liabilities (continued)

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 \$3,713,000 and \$4,203,000 remaining at June 30, 2024 and 2023, respectively. 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, 2024 and 2023, the Series 2013A outstanding balance is \$0 and \$56,700,000, respectively.

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, 2024 and 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, 2024, 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 did not result in an event of default, which occurs after two consecutive fiscal years of noncompliance under the borrowing agreements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Interest Rate Swaps

On June 30, 2024 and 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	2024 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 + 100 - basis-point spread	\$ (3,880)
							<u>\$ (3,880)</u>
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 fair value of the hedged \$85,000,000 interest rate swap is approximately \$3,880,000 and \$3,873,000 as of June 30, 2024 and 2023, respectively 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, 2024 and 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 unchanged, which is AA-/A1/A- at June 30, 2024 and 2023.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

8. Interest Rate Swaps (continued)

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.

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. As of June 30, 2024 the Company was not required to post collateral with the counterparty. As of June 30, 2023 there was a collateral balance of \$5,760,000. Effective October 6, 2023 Shands provided a guaranty of payment as additional security related to the Company's total return swap, so that the variable basis uses Shands' unenhanced credit rating as determined by Moody's or Fitch.

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 \$14,408,000 and \$13,337,000 for the fiscal years ended June 30, 2024 and 2023, respectively.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

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.

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(k) Plan.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

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, 2023, the measurement date for the pension liability, the following employees were covered by the benefit terms (participant data as of July 1, 2022):

Active	2
Retired	50
Terminated vested	460
	<u>512</u>

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
	<u>530</u>

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 contributed approximately \$1,274,000 and \$828,000 for fiscal years ended June 30, 2024 and 2023, respectively.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

Net Pension Liability

The Company's proportionate share of the net pension liability as of June 30, 2024, was approximately \$1,247,000 and was based on a measurement date of June 30, 2023, 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, 2023, was determined based on the results of an actuarial valuation as of July 1, 2022, projected forward to June 30, 2023, using standard actuarial techniques. The 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, 2024, the Company's proportion was (2.0)%, which was a decrease of 20.5% from its proportion reported as of June 30, 2023.

The total pension liability in the July 1, 2022, actuarial valuation was determined based on census data as of July 1, 2022, and the following actuarial assumptions:

- Investment rate of return: 6.40%, net of pension plan investment expense, including inflation.
- Salary increases: Not applicable
- Inflation: 3.00% for the period July 1, 2022 through June 30, 2023; 2.48% for the period July 1, 2023 through June 30, 2024; and 2.00% per year thereafter.
- Retirement growth account interest crediting rate: 3.42% for the period July 1, 2022 through June 30, 2023; 3.66% for the period July 1, 2023 through June 30, 2024; and 4.10% per year thereafter. The 3.42% and 3.66% rates represent the actual interest rate credited in each respective period.

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

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

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.
- 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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

- 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
	<u> </u>	<u> </u>
Global equity	37.00%	5.77%
Long credit fixed income	28.00%	3.31%
Long government/credit fixed income	28.00%	2.59%
Multi-asset credit	5.60%	3.93%
Private equity	1.40%	9.07%
Total	<u>100.00%</u>	

The discount rate used to measure the total pension liability was 6.40%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 6.40%, as well as the net pension liability using a discount rate that is 1% lower (5.40%) or 1% higher (7.40%):

	1% Decrease (5.40%)	Current Discount Rate (6.40%)	1% Increase (7.40%)
	<i>(Dollars in Thousands)</i>		
Proportionate share of net pension liability (asset)	\$ 4,932	\$ 1,247	\$ (2,008)

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

The Company recognized pension expense of approximately \$2,485,000 for the fiscal year ended June 30, 2024. At June 30, 2024, 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	\$ 1,971	\$ –
Changes of assumptions	562	1,633
Net differences between projected and actual earnings on pension plan investments	5,983	–
Contributions made during the fiscal year ended June 30, 2024, not yet recognized in net fiduciary position	1,274	–
	<u>\$ 9,790</u>	<u>\$ 1,633</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

The Company recognized 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>

The contributions made to the Plan during the fiscal year ended June 30, 2024, 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:	
2025	\$ 1,847
2026	1,440
2027	3,546
2028	52
Thereafter	—

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

Fair Value Measurements

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

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>

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

Interest Rate Risk

Interest rate risk exposure is managed by limiting investment maturities in accordance with parameters in the Plan's investment policy. The Plan has investments maturing as of the measurement date of June 30, 2023, as follows:

	Fair Value	Less Than 1 Year	1–5 Years	6–10 Years	Over 10 Years	N/A
	<i>(Dollars in Thousands)</i>					
Interest bearing cash	\$ 4,257	\$ –	\$ –	\$ –	\$ –	\$ 4,257
U.S. government securities	201,203	3,731	16,106	20,709	145,019	15,638
Corporate debt instruments-preferred	104,206	–	3,032	22,539	78,635	–
Corporate debt instruments	138,660	1,096	10,656	33,881	91,353	1,674
Fixed income funds	153,744	648	–	–	–	153,096
Equity funds	250,320	–	–	–	–	250,320
Preferred and common stock	93,436	–	1,191	189	–	92,056
Other investments	9,469	–	572	1,625	3,543	3,729
Total assets in the fair value hierarchy	955,295	<u>\$ 5,475</u>	<u>\$ 31,557</u>	<u>\$ 78,943</u>	<u>\$ 318,550</u>	<u>\$ 520,770</u>
Investments measured at NAV	9,840					
Total investments	<u>\$ 965,135</u>					

The Plan has investments maturing as of the measurement date of June 30, 2022, as follows:

	Fair Value	Less Than 1 Year	1–5 Years	6–10 Years	Over 10 Years	N/A
	<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	943,948	<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>					

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, 2023, 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	\$ 4,257	\$ –	\$ –	\$ –	\$ –	\$ 4,257
U.S. government securities	201,203	185,565	–	–	–	15,638
Corporate debt instruments-preferred	104,206	19,618	64,054	13,246	7,288	–
Corporate debt instruments	138,660	11,059	25,888	58,028	42,014	1,673
Fixed income funds	153,744	–	–	–	–	153,744
Equity funds	250,320	–	–	–	–	250,320
Preferred and common stock	93,436	–	–	–	–	93,436
Other investments	9,469	3,793	746	758	313	3,859
Total assets in the fair value hierarchy	<u>955,295</u>	<u>\$ 220,035</u>	<u>\$ 90,688</u>	<u>\$ 72,032</u>	<u>\$ 49,615</u>	<u>\$ 522,927</u>
Investments measured at NAV	9,840					
Total investments	<u>\$ 965,135</u>					

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>					

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

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, 2023 and 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, 2023 and 2022, the Plan's investment portfolio was held by a single third-party custodian.

Foreign Currency Risk

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

9. Employee Benefit Plans (continued)

The Plan's exposure to currency risk as of the measurement date of June 30, 2023 and 2022 is as follows (*dollars in thousands*):

	June 30	
	2023	2022
Currency		
Australian dollar	\$ 1,218	\$ 486
Brazil real	351	(88)
Canadian dollar	2,752	2,675
Chilean peso	126	—
Chinese yuan	7	—
Colombian peso	361	—
Danish krone	3,381	3,478
Euro currency unit	24,872	21,711
Hong Kong dollar	6,239	10,423
Indian rupee	769	—
Japanese yen	15,706	11,621
Mexican peso	1,242	11
Norwegian krone	1,084	703
Peruvian sol	84	603
British pound sterling	5,288	5,199
South African rand	1,745	4,795
Swedish krona	3,450	2,479
Swiss franc	3,905	5,197
Total Plan investments subject to foreign currency risk	<u>\$ 72,580</u>	<u>\$ 69,293</u>
Percentage of total Plan investments	7.9	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, 2023. 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, 2023, measurement date, the number of plan participants consisted of the following:

	<u>Medical</u>	<u>Dental</u>
Participant data as of July 1, 2023:		
Retirees	11	191
Spouses	3	51
Surviving spouses	—	—
	<u>14</u>	<u>242</u>

As of July 1, 2023, there were 330 fully eligible active employees and 4,812 active but not fully eligible employees.

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

	Year Ended June 30	
	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 3,486	3,894
Changes for the year:		
Service cost	159	193
Interest	120	81
Difference between expected and actual experience	89	37
Changes of assumptions	(572)	(457)
Benefit payments	(214)	(262)
Net changes	<u>(418)</u>	<u>(408)</u>
Balances, end of year	<u>\$ 3,068</u>	<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:
 - 3.65% per annum for the July 1, 2023, measurement date
 - 3.54% per annum for the July 1, 2022, measurement date
- Medical health care cost trend rates:
 - Initial/ultimate 5.25%/4.00% increases for the July 1, 2023, measurement date
 - 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, 2023 and July 1, 2022, measurement dates

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% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Other postemployment benefit liability	\$ 2,951	\$ 3,068	\$ 3,193

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 3.65% 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 (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
Other post-employment benefit liability	\$ 3,208	\$ 3,068	\$ 2,939

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

	Fiscal Year Ended June 30	
	2024	2023
Service cost	\$ 159	\$ 193
Interest	120	81
Change in benefit terms	-	-
Amortization of differences between expected and actual experience	69	65
Amortization of changes of assumptions	(823)	(634)
Total other post-employment benefits expense	<u>\$ (475)</u>	<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, 2024, are summarized as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<i>(Dollars in Thousands)</i>	
Differences between expected and actual experience	\$ 173	\$ –
Changes of assumptions	–	1,394
Contributions made during the fiscal year ended June 30, 2024, not yet recognized in net fiduciary position	221	–
Total	<u>\$ 394</u>	<u>\$ 1,394</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<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>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

10. Other Post-employment Benefits (continued)

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:		
2025	\$	549
2026		317
2027		205
2028		118
Thereafter		33

11. Commitments and Contingencies

Leases

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

The 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 17 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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

11. Commitments and Contingencies (continued)

other payments or termination penalties not previously included in the measurement of the lease liability reflected as outflows of resources. As of June 30, 2024 and 2023, the right-of-use lease asset for property leases, net of amortization, is approximately \$82,198,000 and \$92,202,000, respectively, and is recorded in capital assets, net in the consolidated basic statement of net position.

Equipment Leases

The Company has 21 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, 2024 and 2023, the right-to-use asset for equipment leases, net of amortization, is approximately \$6,193,000 and \$6,505,000, respectively, 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, 2024 (*dollars in thousands*):

Fiscal year ending:	
2025	\$ 14,173
2026	13,710
2027	13,594
2028	12,827
2029	12,144
Thereafter	<u>57,898</u>
Total minimum lease payments	124,346
Less amount representing interest	<u>(30,719)</u>
Present value of net minimum lease payments	93,627
Less lease obligations, current portion	<u>(10,580)</u>
Lease obligations, noncurrent portion	<u>\$ 83,047</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, 2024 and 2023, the total receivable for the leased buildings and space was approximately \$20,172,000 and \$22,648,000 and deferred inflows approximately \$18,667,000 and \$21,630,000, respectively.

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 27 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, 2024 and 2023, the subscription asset, net of amortization, is approximately \$14,318,000 and \$10,460,000, respectively, 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, 2024 (*dollars in thousands*):

Fiscal year ending:	
2025	\$ 4,768
2026	3,948
2027	3,351
2028	2,662
2029	1,467
Thereafter	<u>333</u>
Total minimum subscription payments	16,529
Less amount representing interest	<u>(1,785)</u>
Present value of net minimum subscription payments	14,744
Less subscription liabilities, current portion	<u>(4,055)</u>
Subscription liabilities, noncurrent portion	<u>\$ 10,689</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 \$14,576,000 and \$27,509,000, which includes retainage of \$1,926,000 and \$5,829,000 at June 30, 2024 and 2023, respectively.

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 years ended June 30, 2024 and 2023, were approximately \$38,584,000 and \$37,632,000, respectively.

SJMC is self-insured for workers’ compensation up to \$600,000 per occurrence and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. Total workers’ compensation expense for the fiscal years ended June 30, 2024 and 2023, was approximately \$641,000 and \$969,000, respectively.

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 \$6,386,000 and \$5,696,000 for the fiscal years ended June 30, 2024 and 2023, respectively. At June 30, 2024 and 2023, the Company owed Shands approximately \$1,571,000 and \$580,000, respectively.

SJMC supports UF College of Medicine – Jacksonville's clinical, teaching and research activities and contracts for certain medical services from University of Florida Jacksonville Physicians, Inc., a related party controlled by UF. These expenditures are primarily medical services of approximately \$141,070,000 and \$93,504,000 for the fiscal years ended June 30, 2024 and 2023, of which approximately \$85,679,000 and \$43,557,000, respectively, 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, 2024 and 2023, payables related to this arrangement amounted to approximately \$12,598,000 and \$7,171,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net position.

At June 30, 2024 and 2023, the Company has a note payable ("2011 Shands Note Payable") of approximately \$9,026,000 and \$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 \$1,224,000 and \$1,170,000 is included within long-term debt, current portion, and the long-term portion of the note payable of approximately \$7,802,000 and \$9,025,000 is included within long-term debt, noncurrent portion, at June 30, 2024, and 2023, respectively, in the accompanying consolidated basic statement of net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

12. Transactions With Related Parties (continued)

Effective October 6, 2023, Shands provided a guaranty related to the Company's total return swap related to the Series 2015 \$85.0 million bonds. The guaranty provided a more favorable variable interest rate because Shands has a more favorable credit rating. Effective October 20, 2023, Shands provided the Company with a \$35.0 million revolving line of credit with final maturity June 30, 2024. At June 30, 2024, no balance is outstanding and the agreement extension has not been executed at the date these financial statements are available to be issued.

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:

	June 30	
	2024	2023
Medicare	31%	27%
Medicaid	9	10
Managed care	25	26
Other payors	35	37
	<u>100%</u>	<u>100%</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements (continued)

14. Subsequent Events

The Company has assessed the impact of subsequent events through September 26, 2024, 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.

The UF Board of Trustees approved the formation of the University of Florida Health Corporation (“Corporation”) as an umbrella organization to primarily support the health affairs mission of UF, in a manner consistent with §1004.41, Florida Statutes. The Corporation exists to govern, oversee and enhance coordinated decision-making, strategic marketing and planning, and resource investment for the Corporation’s and UF’s healthcare enterprise, as well as the Corporation’s system of direct and indirect subsidiaries, including hospitals, healthcare facilities and clinical and faculty practice entities. As part of the oversight and coordination, the Corporation Board of Directors shall also be the Board of Directors for Shands, SJH and SJMC.

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, 2015 Through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Proportion of the net pension (asset) liability	(2.0)%	(1.7)%	7.2%	6.8%	4.5%	1.2%	0.5%	15.2%	14.5%	4.0%
Proportionate share of the net pension (asset) liability	\$ 1,247	\$ 413	\$ (15,907)	\$ (7,881)	\$ (5,537)	\$ (278)	\$ (227)	\$ 6,414	\$ 6,092	\$ (2,274)
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	97.7%	99.3%	126.7%	113.6%	109.0%	100.4%	100.3%	90.8%	92.0%	103.2%

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 2024:

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

The interest credit assumption was updated to 3.42% for 2022/2023 and 3.66% for 2023/2024 to reflect the actual rate in effect for the year.

The cost-of-living assumption was updated to 3.00% for 2022/2023 and 2.48% for 2023/2024.

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 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.

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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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

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

Changes in assumptions 2019:

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

Changes in assumptions 2018:

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

Changes in assumptions 2017:

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

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

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

Changes in assumptions 2016:

The 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%.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Schedule of Employer Contributions (Unaudited)
(Dollars in Thousands)

July 1, 2015 Through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	1,274	208	-	622	965	1,333	2,017	2,071	1,241	1,408
Contribution excess	<u>\$ (1,274)</u>	<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>	<u>\$ (1,408)</u>

Notes to Schedule

The Company 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.

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:

	2024	2023	2022	2021	2020
Valuation date	July 1, 2023	July 1, 2022	July 1, 2021	July 1, 2020	July 1, 2019
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, 5.00% for the next 15 years, and 5.74% thereafter	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
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-2021.	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.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Schedule of Employer Contributions (Unaudited) (continued)
(Dollars in Thousands)

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

Other information:

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

Supplementary Consolidating Information

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Consolidating Basic Statements of Net Position (Dollars in Thousands)

June 30, 2024

	Shands Jacksonville Medical Center Obligated Group⁽¹⁾	Other	Eliminations	Consolidated Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 132,554	\$ 5,587	\$ —	\$ 138,141
Short-term investments	3,343	—	—	3,343
Patient accounts receivable, net	100,112	—	—	100,112
Due from city and state agencies	59,548	—	—	59,548
Inventories	21,363	—	—	21,363
Prepaid expenses and other current assets	81,217	40,570	(99,141)	22,646
Assets whose use is restricted, current portion	72	—	—	72
Estimated third-party payor settlements	7,190	—	—	7,190
Total current assets	405,399	46,157	(99,141)	352,415
Assets whose use is restricted, less current portion	81,192	—	—	81,192
Capital assets, net	546,710	29,460	—	576,170
Investment in Duval Rehab	2,882	—	—	2,882
Other assets	26,169	11,618	—	37,787
Total assets	1,062,352	87,235	(99,141)	1,050,446
Deferred outflows of resources				
Accumulated decrease in fair value of hedge derivatives	3,880	—	—	3,880
Deferred loss on debt refunding	3,934	—	—	3,934
Deferred other post-employment benefits outflows	394	—	—	394
Deferred pension outflows	9,790	—	—	9,790
Total deferred outflows of resources	17,998	—	—	17,998

⁽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 Statements of Net Position (continued) (Dollars in Thousands)

June 30, 2024

	Shands Jacksonville Medical Center Obligated Group⁽¹⁾	Other	Eliminations	Consolidated Total
Liabilities				
Current liabilities:				
Long-term debt, current portion	\$ 1,224	\$ –	\$ –	\$ 1,224
Lease obligations, current portion	9,799	781	–	10,580
Subscription liabilities, current portion	4,055	–	–	4,055
Accounts payable and accrued expenses	152,113	50,315	(99,141)	103,287
Accrued salaries and leave payable	35,503	–	–	35,503
Estimated third-party payor settlements	59,423	–	–	59,423
Total current liabilities	262,117	51,096	(99,141)	214,072
Long-term liabilities:				
Long-term debt, noncurrent portion	441,195	–	–	441,195
Lease obligations, noncurrent portion	71,863	11,184	–	83,047
Subscription liabilities, noncurrent portion	10,689	–	–	10,689
Other liabilities	28,932	–	–	28,932
Total long-term liabilities	552,679	11,184	–	563,863
Total liabilities	814,796	62,280	(99,141)	777,935
Deferred inflows of resources				
Deferred other post-employment				
benefits inflows	1,394	–	–	1,394
Deferred pension inflows	1,633	–	–	1,633
Deferred inflow leases	10,131	8,536	–	18,667
Total deferred inflows of resources	13,158	8,536	–	21,694
Net position				
Net investment in capital assets	243,976	17,495	–	261,471
Restricted:				
Expendable	3,769	1,257	–	5,026
Unrestricted (deficit)	4,651	(2,333)	–	2,318
Total net position	\$ 252,396	\$ 16,419	\$ –	\$ 268,815

⁽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 Statements of Net Position (continued) (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 Statements 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 Statements of Revenues, Expenses and Changes in Net Position (Dollars in Thousands)

Year Ended June 30, 2024

	Shands Jacksonville Medical Center Obligated Group⁽¹⁾	Other	Eliminations	Consolidated Total
Operating revenues				
Net patient service revenue, net of provision for bad debts of \$123,624	\$ 1,089,771	\$ –	\$ –	\$ 1,089,771
Other operating revenue	25,086	1,828	(170)	26,744
Total operating revenues	<u>1,114,857</u>	<u>1,828</u>	<u>(170)</u>	<u>1,116,515</u>
Operating expenses				
Salaries and benefits	462,944	–	–	462,944
Supplies and services	564,841	1,251	(170)	565,922
Depreciation and amortization	49,422	1,517	–	50,939
Total operating expenses	<u>1,077,207</u>	<u>2,768</u>	<u>(170)</u>	<u>1,079,805</u>
Operating gain (loss)	<u>37,650</u>	<u>(940)</u>	<u>–</u>	<u>36,710</u>
Nonoperating revenues (expenses)				
Interest expense	(20,646)	(326)	–	(20,972)
Net investment gain, including change in fair value	6,957	224	–	7,181
Loss on Lease Modification	(126)	–	–	(126)
Gain on disposal of capital assets, net	36	–	–	36
Other nonoperating loss, net	(3,643)	–	–	(3,643)
Total nonoperating expenses, net	<u>(17,422)</u>	<u>(102)</u>	<u>–</u>	<u>(17,524)</u>
Surplus (deficit) of revenues over expenses before capital contributions	20,228	(1,042)	–	19,186
Capital grants	16,932	–	–	16,932
Capital contributions, net	57	–	–	57
Increase (decrease) in net position	<u>37,217</u>	<u>(1,042)</u>	<u>–</u>	<u>36,175</u>
Net position				
Beginning of year	215,179	17,461	–	232,640
End of year	<u>\$ 252,396</u>	<u>\$ 16,419</u>	<u>\$ –</u>	<u>\$ 268,815</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 Statements of Revenues, Expenses and
Changes in Net Position (continued)
(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				
Net investment gain, including change in fair value	(18,531)	(345)	–	(18,876)
Loss on Lease Modification	8,997	226	–	9,223
Gain on disposal of capital assets, net	(2)	–	–	(2)
Other nonoperating loss, net	3	–	–	3
Total nonoperating expenses, net	<u>(5,149)</u>	<u>–</u>	<u>–</u>	<u>(5,149)</u>
Deficit of revenues over expenses before capital contributions	<u>(14,682)</u>	<u>(119)</u>	<u>–</u>	<u>(14,801)</u>
Capital grants	(77,700)	(1,150)	–	(78,850)
Capital contributions, net	24,223	–	–	24,223
Decrease in net position	<u>1,043</u>	<u>–</u>	<u>–</u>	<u>1,043</u>
	<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, 2024

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, 2024 and 2023, and for the years then ended, in conformity with accounting principles generally accepted in the United States of America, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information presents adjustments necessary to eliminate significant intercompany accounts and transactions. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated basic financial statements.

Accompanying Internal Control Over Financial Reporting and Compliance Report



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

Management and The Board of Directors
Shands 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, 2024, 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, 2024.

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, 2024

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