

Shands Jacksonville HealthCare, Inc. and Subsidiaries

**Consolidated Basic Financial Statements, Required
Supplementary Information and Supplemental
Consolidating Information
June 30, 2017 and 2016**

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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June 30, 2017 and 2016

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Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

Introduction

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

Organization

Shands Jacksonville HealthCare, Inc., formerly known as Jacksonville Health Group, Inc., is a Florida not-for-profit corporation with direct or indirect legal control over numerous subsidiaries.

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

On September 30, 1999, Methodist Medical Center, Inc., Methodist Health System, Inc. and The Methodist Hospital Foundation, Inc. (now known as Shands Jacksonville Properties, Inc., "SJP"), SJH, UMC and Shands Teaching Hospital and Clinics, Inc. ("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.

The Affiliation was approved by the City and secured creditors of both UMC and SJP. As a result of the Affiliation, the requisite corporate actions were taken on February 1, 2003 to designate Shands as the sole corporate member of SJH.

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.

During September 2015, after assessment of each organization's financial position, the Company's Board of Directors agreed to accept an offer from the Shands' Board of Directors for a reduction of approximately \$17,687,000 in the note due to Shands, effective July 1, 2015, which increased the Company's net position by approximately \$17,687,000 as of July 1, 2015.

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

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The accompanying consolidated basic financial statements include the accounts of SJH, SJMC, SJP and other subsidiaries of SJH as of and for the years ended June 30, 2017 and 2016. The "Company" in these consolidated basic financial statements refers to the consolidated operations of these entities. Significant transactions between these entities have been eliminated.

Overview of the Consolidated Basic Financial Statements

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

Required Financial Statements

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

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

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

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

Financial Analysis of the Company

Consolidated Basic Statements of Net Position

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

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

(in thousands of dollars)

	2017	2016	2015
Cash and cash equivalents and short-term investments	\$ 101,839	\$ 114,864	\$ 113,580
Other current assets	137,781	130,270	113,812
Capital assets, net	265,681	208,445	203,336
Other noncurrent assets	53,994	114,394	43,677
Total assets	<u>559,295</u>	<u>567,973</u>	<u>474,405</u>
Deferred outflows of resources	<u>6,917</u>	<u>7,340</u>	<u>2,911</u>
Current liabilities	107,045	101,685	96,990
Noncurrent liabilities	260,806	270,349	203,691
Total liabilities	<u>367,851</u>	<u>372,034</u>	<u>300,681</u>
Deferred inflows of resources	<u>6,667</u>	<u>11,923</u>	<u>7,422</u>
Net position			
Net investment in capital assets	51,330	44,247	52,469
Restricted:			
Expendable	4,794	4,123	4,093
Unrestricted	135,570	142,986	112,651
Total net position	<u>\$ 191,694</u>	<u>\$ 191,356</u>	<u>\$ 169,213</u>

During 2017, cash and cash equivalents and short-term investments decreased by approximately \$13.0 million, or 11.3%. Cash generated from operations was approximately \$64.4 million. During 2016, cash and cash equivalents and short-term investments increased by approximately \$1.3 million, or 1.1%. Cash generated from operations was approximately \$65.7 million. See "Consolidated Basic Statement of Cash Flows" section below for further information regarding cash activity.

Other current assets increased by approximately \$7.5 million, or 5.8% during 2017. The increase consists of the following: an increase in net patient accounts receivable of \$3.8 million and a combined net increase in prepaid expenses, inventories and assets whose use is restricted of approximately \$3.7 million, which relate to the timing of invoice payments and increases to support new programs and an additional \$1.1 million swap collateral deposit. During 2016, other current assets increased by approximately \$16.5 million, or 14.5%. The increase consists of the following: an increase in net patient accounts receivable of \$16.0 million, primarily related to the opening of North Phase I and five (5) new oncology infusion clinics since March 2015; and, a combined net increase in amounts due from city and state agencies, prepaid expenses, inventories and assets whose use is limited of approximately \$0.5 million.

Capital assets, net, increased approximately \$57.2 million, or 27.5%, in 2017, primarily related to North Phase II construction and equipment purchases, offset by an increase in accumulated depreciation. During 2016, capital assets, net, increased approximately \$5.1 million, or 2.5%, primarily related to initial North Phase II construction effort, offset by an increase in accumulated depreciation.

Shands Jacksonville HealthCare, Inc. and Subsidiaries Management's Discussion and Analysis (Unaudited) June 30, 2017 and 2016

Other noncurrent assets decreased approximately \$60.4 million, or 52.8%, during 2017, primarily from drawing down \$58.7 million of Series 2015 project fund balances for their intended purpose; a reduction in Series 2015 bond swap fair value of \$4.7 million; a \$1.0 million reduction of fair value of trustee held funds; offset by an increase in deposits, investments and other receivables of \$4.0 million. During 2016, other noncurrent assets increased approximately \$70.7 million, or 161.9%, which occurred when a large portion of the proceeds of the Series 2015 \$85.0 million Healthcare Facilities Revenue Bonds, issued December 10, 2015, and discussed further below, were set aside in a trustee held project fund.

Deferred outflows of resources decreased by approximately \$0.4 million, or 5.8%, during 2017, primarily related to the fair value of hedged derivatives. During 2016, deferred outflows of resources increased by approximately \$4.4 million, or 152.1%, primarily due to pension contributions and related activity.

Current liabilities increased approximately \$5.4 million, or 5.3%, during 2017. Contributors include a \$5.7 million increase for accrued salaries and leave payable; a \$2.8 million increase in trade accounts payable and other accrued expenses; offset by a \$2.1 million decrease for estimated third party liabilities and a \$1.1 million net decrease for the current portion due on new long-term debt and leases, which are discussed further below. During 2016, current liabilities increased approximately \$4.7 million, or 4.8%. Contributors include a \$2.4 million increase for accrued salaries and leave payable; a \$5.7 million increase for estimated third party liabilities; a \$4.0 million decrease in trade accounts payable and other accrued expenses; and, a \$0.7 million net increase for the current portion due on new long-term debt and leases, which are discussed further below.

Noncurrent liabilities decreased approximately \$9.5 million, or 3.5%, during 2017 primarily from debt and capital lease payments as well as reclassification from long-term to current portions due. During 2016, noncurrent liabilities increased approximately \$66.7 million, or 32.7%, from the following activity: an increase of \$62.5 million for the long-term portion of the new \$85 million Series 2015 bond issue, offset by reclassifications to current liabilities and the \$17.7 million Shands 2011 promissory note debt forgiveness, discussed further below; and other liability increase of \$6.3 million, primarily for the pension liability; all of which were offset by a \$2.2 million decrease in the long-term portion of capital leases.

As of June 30, 2017, the Company has approximately \$252.0 million in long-term debt outstanding compared to approximately \$259.7 million at June 30, 2016. The decrease relates to debt payments as there was no new debt was issued during 2017. On December 10, 2015, \$85.0 million Healthcare Facilities Revenue Bonds (UF Health – Jacksonville Project), Series 2015, were issued. The proceeds of this debt were used for financing, refinancing or reimbursement for costs of certain capital improvements including the cost of the construction and equipping North Phase II, other miscellaneous improvements and paying costs associated with the issuance of the Bonds. On March 1, 2015, the Company entered into an interest only \$20 million Revolving Line of Credit Note, Series 2015A, and was advanced the entire amount, which is due and payable in full by March 6, 2020, unless extended. The proceeds of Series 2015A Note were used primarily for general corporate expenditures. On June 29, 2015, the Company closed on the \$20 million issuance of City of Jacksonville, Florida Healthcare Facilities Revenue Bonds (UF Health Jacksonville Project), Series 2015, which matures on June 30, 2025. The purpose of Series 2015 Bonds was for financing, refinancing and reimbursing the costs of capital improvements and for paying for costs of issuance. On March 2, 2015, the Company borrowed \$6.2 million under a master lease agreement. During 2013, SJMC borrowed approximately \$123.6 million with the issuance of Healthcare Facilities Revenue Bonds Series 2013A and 2013B, for approximately \$64.2 million and \$59.4 million, respectively, on November 21, 2013. The proceeds of this issuance refunded the \$100 million Series 2013 Shands Jacksonville Medical Center Taxable Notes, paid for the cost of debt issuance, provided for a debt service reserve fund and was used to reimburse or fund capital projects.

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The promissory note owed to Shands in an original amount of approximately \$42.3 million, as mentioned above, was recorded by the Company during 2011. The note payable balance at June 30, 2015 was approximately \$35.8 million but is only \$17.1 million at June 30, 2016 based on debt forgiveness that was agreed to in September 2015, when the Company's Board of Directors agreed to accept the offer from the Shands Board of Directors to reduce the note by approximately \$17,687,000, effective July 1, 2015. Beginning with the payment due on October 1, 2015, quarterly installments of principal and interest became \$402,310, with the interest rate and maturity date remaining unchanged. The impact of the Boards' actions was to increase the Company's net position by approximately \$17,687,000 as of July 1, 2015.

Also during September 2015, the Company offered, and Shands accepted, application of an interest rate of 3% to the monthly amounts outstanding back to July 2011 through June 2015 for its share of EPIC implementation costs that Shands had allowed the Company to pay over time on an interest-free basis. The impact of this action was to increase accounts payable by approximately \$1,584,000, which was recorded in the Company's 2016 financial results. During 2016, the Company paid the interest in its entirety.

The net result of September 2015 transactions was approximately \$16,103,000 and is reflected in other changes in net position in the Company's June 30, 2016 financial results.

The Company was in compliance with all financial covenants as of June 30, 2017 and 2016.

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

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

(in thousands of dollars)

	2017	2016	2015
Net patient service revenue	\$ 683,620	\$ 650,587	\$ 577,554
Other operating revenue	12,788	14,851	12,523
Total operating revenues	696,408	665,438	590,077
Operating expenses	656,250	625,042	557,967
Operating Income	40,158	40,396	32,110
Nonoperating (expenses) revenue, net	(5,995)	(1,031)	11,443
Excess of revenues over expenses before transfers and capital contributions	34,163	39,365	43,553
Other changes in net assets:			
Transfers and expenditures in support of the University of Florida and its medical programs	(34,118)	(33,355)	(23,055)
Debt forgiveness, net	-	16,103	-
Capital contributions, net	293	30	10
Increase in net position	338	22,143	20,508
Net position			
Beginning of year	191,356	169,213	148,705
End of year	<u>\$ 191,694</u>	<u>\$ 191,356</u>	<u>\$ 169,213</u>

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Patient Volumes

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

	2017	2016	2015
Inpatient admissions	26,829	26,869	25,850
Outpatient visits	578,821	535,524	454,001

During 2017, inpatient admissions, excluding observation cases, decreased by 40, or 0.1%, and outpatient visits increased by 43,297, or 8.1%. The outpatient increase came largely from UF Health North and infusion oncology services. UF Health North generated approximately 5,348 (3,713 acute and 1,635 observation) admissions, 2,884 surgical cases, 35,386 emergency room visits and 30,733 ancillary visits. Infusion oncology clinics, opened since March 2015, generated 33,511 outpatient clinic visits and 19,975 ancillary visits. The remainder of the outpatient visit increase is primarily from increased hematology-oncology clinic visits.

During 2016, inpatient admissions, excluding observation cases, increased by 1,019 or 3.9%, and outpatient visits increased 81,523, or 18.0%. These increases were primarily from opening North Phase I in February 2015, which has generated approximately 4,685 (3,223 acute and 1,462 observation) hospital admissions, 2,822 surgical cases, 32,646 emergency room visits and 24,065 ancillary visits. Five (5) infusion oncology centers have opened since March 2015, which have generated 22,131 outpatient clinic visits and 10,957 ancillary visits during 2016. The remainder of the 2016 outpatient visit increase is from additional lab services.

Operating Revenues

During 2017, patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, increased approximately \$33.0 million, or 5.1%, primarily related to the outpatient volume increases, discussed above, largely from UF Health North and infusion oncology locations and improved payor mix growth in Medicare (+1.4%) and commercial (+0.1%). During 2016, patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, increased by approximately \$73.0 million, or 12.6%. The increase is primarily related to the new volume from North Phase I and infusion oncology operations, as noted above, and continued commercial payor mix growth (+2.5%).

Other operating revenue decreased during 2017 approximately \$2.1 million, or 13.9%, primarily related to a lack of electronic health record meaningful use grant revenue, as that program has now moved into the penalty phase, and a reduction in self-insured workers compensation stop loss insurance recoveries since prior year. During 2016, other operating revenue increased approximately \$2.3 million, or 18.6%, primarily related to revenue for patient care coordination support and a small increase in grant revenue including the electronic health record meaningful use grant.

Operating Expenses

During 2017, operating expenses increased approximately \$31.2 million, or 5.0%. Salaries and benefits increased approximately \$24.2 million, or 8.6%, which is largely the result of additional staffing for UF Health North operations as well as a 2% merit increase effective November 2016, which was earlier than originally scheduled for January 2017. Supplies and services increased by approximately \$8.1 million, or 2.6%, primarily related to pharmaceuticals and other medical supplies associated with increased volumes, as well as additional professional and purchased services for them. Depreciation expense decreased \$1.1 million, or 3.3%, primarily because of assets becoming fully depreciated. During 2016,

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operating expenses increased approximately \$67.1 million, or 12.0%. Salaries and benefits increased approximately \$19.9 million, or 7.6%, which is largely the result of additional staffing for a full year of North Phase I operations, and the additional openings of infusion oncology centers, as well as a scheduled 2% merit increase effective January 2016. Supplies and services increased by approximately \$43.4 million, or 16.3%, primarily related to pharmaceuticals, implants and other medical supplies associated with increased volumes from new locations, as well as additional rent and purchased services for them. Depreciation expense increased \$3.8 million, or 13.4%, primarily related to new equipment and leasehold improvements for North Phase I.

Nonoperating Revenues (Expenses), net

Nonoperating expenses, net for fiscal year 2017, were approximately \$6.0 million, which includes interest expense of approximately \$7.3 million; other nonoperating losses of approximately \$0.1 million, including a fair value increase in nonhedged derivatives of approximately \$0.6 million; offset by net investment gains of approximately \$0.5 million, including the decrease in fair value of approximately \$1.8 million; and, a \$1.0 million gain on disposals of capital equipment. Included in 2017 investment gains is a favorable true-up of SJMC's investment share of FCA proceeds from its December 2014 sale, which includes claim recoveries.

Nonoperating expenses, net for fiscal year 2016, were approximately \$1.0 million, which includes interest expense of approximately \$9.2 million; other nonoperating losses of approximately \$2.4 million, including a fair value increase in nonhedged derivatives of approximately \$0.2 million; offset by net investment gains of approximately \$10.5 million, including the increase in fair value of approximately \$1.5 million; and, a small gain on disposal of capital equipment. Included in 2016 investment gains is a favorable true-up, after claims run out, of SJMC's investment share of FCA proceeds from its December 2014 sale.

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 2017, cash and cash equivalents increased by approximately \$16.5 million, or 22.4%. Cash inflows were primarily a result of net cash provided by operating activities of \$64.4 million, redemption of assets whose use is restricted of \$98.6 million and investment income received of \$1.8 million. Redemptions of assets whose use is restricted included drawing down nearly \$59.4 million from the Series 2015 \$85 million capital project funds to construct North Phase II; liquidating nearly \$19.7 million previously held in the Florida State Treasury's Special Purpose Investment Account ("SPIA"); and, another \$19.5 million of board designated funds were reclassified from operating cash to SPIA. Cash outflows included purchases of short-term investments and asset whose use is restricted of \$12.3 million, which includes transfers of bank deposits to SPIA of \$10 million and posting an additional \$1.1 million for swap collateral; payments of \$34.1 million in support of UF and its medical programs, payments for acquisition of capital assets of \$85.7 million, and debt, lease, other borrowing and interest payments of \$17.5 million. The Company provided \$2.1 million to fund the defined benefit pension plan.

During 2016, cash and cash equivalents decreased by approximately \$11.7 million, or 13.6%. Cash inflows were primarily a result of net cash provided by operating activities of \$65.7 million, debt proceeds of \$87.3 million, redemption of assets whose use is restricted of \$22.2 million and investment income received of \$ 6.4 million. Cash outflows included \$87.3 million to be held in trust for project and expense funds from the debt proceeds, transfers of bank deposits to SPIA of \$12.0 million, payments of \$33.4 million in support of UF and its medical programs, payments for acquisition of capital assets of \$36.2 million, and debt, lease, other borrowing and interest payments of \$23.5 million. The Company provided \$1.2 million to fund the defined benefit pension plan.

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Credit Ratings

The Company's underlying credit rating of BBB was published by Fitch Ratings in November 2016 with a stable outlook. Moody's Investor Service reaffirmed a Baa3 credit rating in December 2016, with a negative outlook.



Report of Independent Certified Public Accountants

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

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

Management's Responsibility for the Consolidated Basic Financial Statements

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

Independent Certified Public Accountants' Responsibility

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

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



Opinion

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

Other Matters

The accompanying management's discussion and analysis ("MD&A") (unaudited) on pages 1 through 8, the schedule of changes in the net pension liability and related ratios (unaudited) on page 42 and the schedule of employer contributions (unaudited) on page 43 are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audit of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The consolidating information on pages 44 through 48 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "PricewaterhouseCoopers LLP".

September 28, 2017

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Net Position
June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 90,414	\$ 73,897
Short-term investments	11,425	40,967
Patient accounts receivable, net of allowance for uncollectibles of \$74,649 and \$67,528, respectively	107,422	103,657
Inventories	16,273	14,780
Prepaid expenses and other current assets	11,341	10,228
Assets whose use is restricted, current portion	2,745	1,605
Total current assets	<u>239,620</u>	<u>245,134</u>
Assets whose use is restricted, less current portion	32,752	92,475
Capital assets, net	265,681	208,445
Other assets	21,242	21,919
Total assets	<u>559,295</u>	<u>567,973</u>
Deferred outflows of resources		
Accumulated decrease in fair value of hedge derivatives	215	773
Deferred pension outflows	6,702	6,567
Total deferred outflows of resources	<u>6,917</u>	<u>7,340</u>
Liabilities		
Current liabilities		
Long-term debt, current portion	7,869	7,555
Capital lease obligations, current portion	1,105	2,525
Accounts payable and accrued expenses	46,748	43,915
Accrued salaries and leave payable	30,163	24,473
Estimated third-party payor settlements	21,160	23,217
Total current liabilities	<u>107,045</u>	<u>101,685</u>
Long-term liabilities		
Long-term debt, noncurrent portion	244,142	252,142
Capital lease obligations, noncurrent portion	3,577	4,693
Other liabilities	13,087	13,514
Total long-term liabilities	<u>260,806</u>	<u>270,349</u>
Total liabilities	<u>367,851</u>	<u>372,034</u>
Deferred inflows of resources		
Accumulated increase in fair value of hedge derivatives	4,171	8,822
Deferred pension inflows	2,496	3,101
Total deferred inflows of resources	<u>6,667</u>	<u>11,923</u>
Commitments and contingencies		
Net position		
Net investment in capital assets	51,330	44,247
Restricted		
Expendable	4,794	4,123
Unrestricted	135,570	142,986
Total net position	<u>\$ 191,694</u>	<u>\$ 191,356</u>

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

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

(in thousands of dollars)

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of \$78,845 and \$102,995, respectively	\$ 683,620	\$ 650,587
Other operating revenue	12,788	14,851
Total operating revenues	<u>696,408</u>	<u>665,438</u>
Operating expenses		
Salaries and benefits	306,894	282,687
Supplies and services	318,580	310,523
Depreciation and amortization	30,776	31,832
Total operating expenses	<u>656,250</u>	<u>625,042</u>
Operating income	<u>40,158</u>	<u>40,396</u>
Nonoperating revenues (expenses)		
Interest	(7,328)	(9,154)
Net investment gain, including change in fair value	512	10,502
Gain on disposal of capital assets, net	955	17
Other nonoperating losses, net	(134)	(2,396)
Total nonoperating expenses, net	<u>(5,995)</u>	<u>(1,031)</u>
Excess of revenues over expenses before transfers and capital contributions	34,163	39,365
Transfers and expenditures in support of the University of Florida and its medical programs	(34,118)	(33,355)
Debt forgiveness, net	-	16,103
Capital contributions, net	293	30
Increase in net position	<u>338</u>	<u>22,143</u>
Net position		
Beginning of year	<u>191,356</u>	<u>169,213</u>
End of year	<u>\$ 191,694</u>	<u>\$ 191,356</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows
Years Ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 677,797	\$ 643,633
Other receipts from operations	12,638	11,815
Salaries and benefits paid to employees	(304,770)	(273,604)
Payments to suppliers and vendors	(321,314)	(316,148)
Net cash provided by operating activities	<u>64,351</u>	<u>65,696</u>
Cash flows from noncapital financing activities		
Interest paid on Shands note	(754)	(993)
Payments in support of the University of Florida and its medical programs	(34,118)	(33,355)
Payments of long-term debt to Shands	(855)	(1,019)
Proceeds from disposal of noncapital assets	46	4
Net cash used in noncapital financing activities	<u>(35,681)</u>	<u>(35,363)</u>
Cash flows from capital and related financing activities		
Payments for capital assets	(85,670)	(36,225)
Proceeds from sale of capital assets	966	36
Proceeds from issuance of bonds payable	-	87,268
Payments of long-term debt and capital lease obligations	(9,391)	(8,160)
Payments of other capital borrowings	-	(6,150)
Interest paid	(6,469)	(7,148)
Capital contributions	293	30
Net cash (used in) provided by capital and related financing activities	<u>(100,271)</u>	<u>29,651</u>
Cash flows from investing activities		
Investment income received	1,794	6,370
Redemption of short-term investments and assets whose use is restricted	98,628	22,171
Purchase of short-term investments and assets whose use is restricted	(12,304)	(100,199)
Net cash provided by (used in) investing activities	<u>88,118</u>	<u>(71,658)</u>
Net increase (decrease) in cash and cash equivalents	16,517	(11,674)
Cash and cash equivalents		
Beginning of year	73,897	85,571
End of year	<u>\$ 90,414</u>	<u>\$ 73,897</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows (continued)
Years Ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 40,158	\$ 40,396
Adjustments to operating income to net cash provided by operating activities		
Depreciation and amortization	30,776	31,832
Provision for bad debts	78,845	102,995
Changes in:		
Patient accounts receivable	(82,610)	(115,623)
Prepaid expenses, inventories and other current assets	(2,622)	(3,805)
Other assets	(3,901)	(4,034)
Accounts payable and accrued expenses	6,189	2,584
Estimated third-party payor settlements	(2,057)	5,672
Other liabilities	(427)	5,679
Total adjustments	24,193	25,300
Net cash provided by operating activities	\$ 64,351	\$ 65,696
Disclosure of supplemental cash flow information		
Capital assets purchased through capital lease obligations and other borrowings	\$ 25	\$ 6,723
Net (decrease) increase in fair value of investments	(1,801)	1,480
Net change in fair value of nonhedged derivatives and other nonoperating losses	(134)	(2,396)
Loss related to undepreciated costs on capital asset disposals	97	36
Accrued purchases of property and equipment	6,691	4,423

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Tax Status

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

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 consist of money market funds and participation in the Florida State Treasury special investment program ("SPIA"). Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in nonoperating revenues (expenses) when earned.

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

Inventories

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

Assets Whose Use is Restricted

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

Capital Assets

Capital assets are recorded at cost, except for donated items, which are recorded at fair value at the date of receipt as an addition to net position. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the related depreciable assets. Capital assets under capital leases are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statements of revenues, expenses, and changes in net position. Gains and losses on dispositions are recorded in the year of disposal.

Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. Bond issue costs are expensed at the time of issuance. There was approximately \$1,327,000 and \$1,459,000 of net unamortized original premiums for the Series 2015 and 2013A Bonds at June 30, 2017 and 2016, respectively, which will be amortized over the remaining periods of the obligations using the effective interest method.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

Deferred Outflows and Inflows of Resources

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

Accrued Personal Leave

The Company provides accrued time off to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. The Company accrues the estimated expense related to personal leave based on pay rates currently in effect. Upon termination of employment, employees will have their eligible accrued personal leave paid in full.

Defined Benefit Pension Plan

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

Long-Term Debt

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

Net Position

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

Operating Revenues and Expenses

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

Net Patient Service Revenue and Patient Accounts Receivable

SJMC has agreements with third-party payors that provide for payments to SJMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the years ended June 30, 2017 and 2016, net patient service revenue increased by approximately \$4,963,000 and decreased by approximately \$3,572,000, respectively, due to such adjustments.

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

Medicare

The Company participates in the federal Medicare program ("Medicare"). Approximately 27% and 26% of the Company's net patient service revenue, in fiscal years 2017 and 2016, respectively, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. 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, 2017, Medicare cost reports through June 30, 2007, and for fiscal year ended June 30, 2015, were final settled by the Company's Medicare fiscal intermediary.

Medicaid

Approximately 19% and 18% of the Company's net patient service revenue in fiscal years 2017 and 2016, respectively, was derived under the Medicaid program. Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge and outpatient services are reimbursed based upon a cost reimbursement methodology subject to certain ceilings. The Company is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicaid fiscal intermediary. The Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2011. In addition to the tentative payments received by the Company for the provision of health care services to Medicaid beneficiaries, the State of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in net patient service revenue in the accompanying consolidated basic statements of revenues, expenses, and changes in net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

Medicaid reimburses providers based on Diagnosis Related Groups for inpatients and traditional interim cost based rates for outpatients. The Company qualified for additional Medicaid reimbursement for quarterly Graduate Medical Education ("GME") and transitional payments.

The Agency for Healthcare Administration ("AHCA"), Florida Medicaid program, implemented a Statewide Medicaid Managed Care Assistance Program ("MMA") comprised of Health Services Organizations, Provider Service Networks, and Children's Medical Service Network. The majority of Medicaid recipients are required to enroll in the MMA program resulting in a material shift from fee-for-service Medicaid to Managed Medicaid in subsequent periods.

The Company's Medicaid interim rates are based on the most recent "as filed" Medicaid cost reports. The outpatient rates used in fiscal year 2017 were based on the unaudited 2015 cost report. The outpatient rate used in fiscal year 2016 was based on the unaudited 2014 cost report.

Other Third-Party Payors

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

Provision for Bad Debts and Allowance for Uncollectible Accounts

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

Risk Management

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

Effective July 1, 2011, the Company was granted sovereign immunity under the provision of Chapter 2011-114, Laws of Florida. As such, recovery in tort actions arising subsequent to June 30, 2011 will be limited to \$100,000 for any one person for one incident and all recovery related to one incident is limited to a total of \$200,000. Effective October 1, 2011, the limits increased to \$200,000 for any one person for one incident and \$300,000 in total for one incident.

Derivative Financial Instruments

The Company uses interest rate swaps to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The interest rate swaps are evaluated for hedge effectiveness. If the interest rate swap is determined to be an effective hedge, its fair value is an asset or liability with a corresponding deferred outflow or inflow in the accompanying consolidated basic statements of net position. The Company accounts for changes in fair value of interest rate swaps that do not qualify for hedge accounting within other nonoperating losses in the consolidated basic statements of revenues, expenses, and changes in net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"). GASB No. 75 addresses accounting and financial reporting for other postemployment plans that are provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. GASB No. 75 is effective for fiscal years beginning after June 15, 2017. The Company is currently evaluating the impact GASB No. 75 will have on its consolidated basic financial statements.

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

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

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

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

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

3. **Un-sponsored Community Benefit**

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

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

The Company has policies providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and assets criteria. Because the Company does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. The Company maintains records to identify and monitor the level of financial assistance it provides. Charges forgone for services provided under the Company's financial assistance policy for the years ended June 30, 2017 and 2016 were approximately \$386,180,000 and \$323,297,000, respectively.

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2017 and 2016

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

<i>(in thousands of dollars)</i>	2017	2016
Financial assistance provided	\$ 81,721	\$ 69,054
Government support applied to charity care	<u>(26,276)</u>	<u>(26,276)</u>
Net unreimbursed financial assistance	<u>55,445</u>	<u>42,778</u>
Benefits for the broader community		
Community health services	282	532
Health professions education	30,837	15,948
Donations	<u>33</u>	<u>39</u>
Total quantifiable benefits for the broader community	<u>31,152</u>	<u>16,519</u>
Total community benefits	<u>\$ 86,597</u>	<u>\$ 59,297</u>

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

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

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

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

Cash, cash equivalents, investments and assets whose use is restricted are reported in the accompanying consolidated basic statements of net position as follows at June 30, 2017 and 2016:

<i>(in thousands of dollars)</i>	2017	2016
Current assets		
Cash and cash equivalents	\$ 90,414	\$ 73,897
Short-term investments	11,425	40,967
Assets whose use is restricted, current portion	<u>2,745</u>	<u>1,605</u>
	104,584	116,469
Long-term assets		
Assets whose use is restricted, less current portion	<u>32,752</u>	<u>92,475</u>
	<u>\$ 137,336</u>	<u>\$ 208,944</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2017 and 2016

The composition of cash, cash equivalents, investments and assets whose use is restricted at June 30, 2017 and 2016 is as follows:

(in thousands of dollars)

2017	Market Value	Investment Maturities		
		Less Than 1 Year	1–3 Years	N/A
Certificates of deposit	\$ 6,431	\$ 6,431	\$ -	\$ -
Florida Treasury Investment Pool ("SPIA")	37,739	-	37,739	-
Money market funds	5,419	-	-	5,419
Bank deposits	87,747	-	-	87,747
	<u>\$ 137,336</u>	<u>\$ 6,431</u>	<u>\$ 37,739</u>	<u>\$ 93,166</u>

(in thousands of dollars)

2016	Market Value	Investment Maturities		
		Less Than 1 Year	1–3 Years	N/A
Certificates of deposit	\$ 6,430	\$ 6,430	\$ -	\$ -
Florida Treasury Investment Pool ("SPIA")	107,512	-	107,512	-
Money market funds	5,389	-	-	5,389
Bank deposits	89,613	-	-	89,613
	<u>\$ 208,944</u>	<u>\$ 6,430</u>	<u>\$ 107,512</u>	<u>\$ 95,002</u>

SPIA funds are combined with State of Florida funds invested in a fixed income portfolio. SPIA participants have the ability to invest funds same day and withdraw less than \$20 million same day with an 11:00 a.m. transaction deadline. The minimum balance threshold is 60% of the previous three months' average balance, and fund withdrawals that will bring the account below the minimum balance require a 6-month notice. In emergency circumstances, the Department of Financial Services, Division of Treasury, at its own discretion, may liquidate funds with shorter notice and amend the minimum balance requirement.

Assets whose use is restricted include amounts internally designated by the Board of Directors, amounts held by trustees and swap collateral, which is comprised of the following at June 30, 2017 and 2016:

(in thousands of dollars)

	2017	2016
Internally designated by the Board of Directors for clinical support, education, research and other health programs	\$ 19,500	\$ 19,500
Debt service reserve and project funds	13,252	72,975
Held by bank as collateral for interest rate swaps	2,745	1,605
	<u>35,497</u>	<u>94,080</u>
Less: Current portion	(2,745)	(1,605)
Long-term portion	<u>\$ 32,752</u>	<u>\$ 92,475</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2017 and 2016

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities may be sensitive to credit risk and changes in interest rates.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Company invests either by participating in SPIA or through an investment agent. The agreement with the investment agent has specific objectives and guidelines, which includes issuer credit quality, a list of specific allowable investments and credit ratings.

The credit risk profile of the Company's investments and assets whose use is restricted as of June 30, 2017 and 2016 is as follows:

(in thousands of dollars)

	Fair Value	Ratings		
		AAA	A1+/P1	A+f
2017				
Certificates of deposit	\$ 6,431	\$ -	\$ 6,431	\$ -
Florida Treasury Investment Pool ("SPIA")	37,739	-	-	37,739
Money market funds	5,419	5,419	-	-
	<u>\$ 49,589</u>	<u>\$ 5,419</u>	<u>\$ 6,431</u>	<u>\$ 37,739</u>

(in thousands of dollars)

	Fair Value	Ratings		
		AAA	A1+/P1	A+f
2016				
Certificates of deposit	\$ 6,430	\$ -	\$ 6,430	\$ -
Florida Treasury Investment Pool ("SPIA")	107,512	-	-	107,512
Money market funds	5,389	5,389	-	-
	<u>\$ 119,331</u>	<u>\$ 5,389</u>	<u>\$ 6,430</u>	<u>\$ 107,512</u>

Concentration of Credit Risk

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

Custodial Credit Risk

As of June 30, 2017 and 2016, 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 same day.

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Investment gain, net for fiscal years 2017 and 2016 is as follows:

<i>(in thousands of dollars)</i>	2017	2016
Investment income in provider service network	\$ 535	\$ 7,738
Dividends and interest income	1,778	1,284
Net (decrease) increase in the fair value of investments	<u>(1,801)</u>	<u>1,480</u>
Investment gain, net	<u>\$ 512</u>	<u>\$ 10,502</u>

5. Fair Value

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

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

The recurring fair value measurement of investments at June 30, 2017 and 2016:

<i>(in thousands of dollars)</i>	2017 Fair Value	2016 Fair Value
Investments measured by fair value level	\$ -	\$ -
Investments measured at the net asset value (NAV)		
Florida Treasury Investment Pool ("SPIA")	<u>37,739</u>	<u>107,512</u>
Total investments measured at the NAV	37,739	107,512
Other		
Money markets funds and certificates of deposit	11,850	11,819
Cash collateral on deposit with swap counterparty	<u>2,745</u>	<u>1,605</u>
	<u>\$ 52,334</u>	<u>\$ 120,936</u>

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The Florida State Treasury operates a special investment program for public entities and is called the Special Purpose Investment Account (“SPIA”). The SPIA funds are combined with State Funds and are invested as part of the Florida Treasury Investment Pool and are measured at the NAV per share or its equivalent. The Florida Treasury Investment Pool invests in a combination of short-term liquid instruments and intermediate fixed income securities. A maximum of 40% can be redeemed with 5 day notice including less than \$20 million with same day notice. The remaining 60% can be redeemed with 6 month notice. The 6 month notice can be waived by SPIA administration upon request.

The Company’s swaps are classified in Level 2 of the fair value hierarchy. The fair value of the nonhedged interest rate swap is estimated using the present value of expected discounted future cash flows based on the maturity date. The fair value of the hedged interest rate and total return swaps are estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps. Fair value of the interest rate swaps are included in Note 8.

The Company’s long-term debt is classified in Level 2 of the fair value hierarchy. The fair value of fixed rate debt is estimated based on dealer quotes for hospital taxable and tax-exempt debt with similar terms and maturities and using discounted cash flow analyses based on current interest rates for similar types of borrowing arrangements. The fair value of variable rate debt approximates its carrying value. The carrying amount at June 30, 2017 and 2016 is approximately \$250,684,000 and \$258,238,000, respectively. The estimated fair value at June 30, 2017 and 2016 is approximately \$263,322,000 and \$279,197,000, respectively.

6. Capital Assets

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

<i>(in thousands of dollars)</i>	Balance at June 30, 2016	Additions	Deletions	Transfers	Balance at June 30, 2017
Land	\$ 23,918	\$ -	\$ -	\$ -	\$ 23,918
Buildings and leasehold improvements	293,101	-	-	67,013	360,114
Equipment	225,258	-	(2,963)	18,858	241,153
Totals at historical cost	542,277	-	(2,963)	85,871	625,185
Less accumulated depreciation for:					
Buildings and leasehold improvements	(197,708)	(12,524)	-	-	(210,232)
Equipment	(160,032)	(18,226)	2,766	-	(175,492)
	184,537	(30,750)	(197)	85,871	239,461
Construction-in-progress	23,908	88,330	(147)	(85,871)	26,220
Capital assets, net	<u>\$ 208,445</u>	<u>\$ 57,580</u>	<u>\$ (344)</u>	<u>\$ -</u>	<u>\$ 265,681</u>

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<i>(in thousands of dollars)</i>	Balance at June 30, 2015	Additions	Deletions	Transfers	Balance at June 30, 2016
Land	\$ 23,979	\$ -	\$ (61)	\$ -	\$ 23,918
Buildings and leasehold improvements	283,592	-	390	9,119	293,101
Equipment	<u>207,486</u>	<u>573</u>	<u>(1,934)</u>	<u>19,133</u>	<u>225,258</u>
Totals at historical cost	515,057	573	(1,605)	28,252	542,277
Less accumulated depreciation for:					
Buildings and leasehold improvements	(185,123)	(12,207)	(378)	-	(197,708)
Equipment	<u>(143,038)</u>	<u>(18,818)</u>	<u>1,824</u>	<u>-</u>	<u>(160,032)</u>
	186,896	(30,452)	(159)	28,252	184,537
Construction-in-progress	<u>16,440</u>	<u>36,982</u>	<u>(1,262)</u>	<u>(28,252)</u>	<u>23,908</u>
Capital assets, net	<u>\$ 203,336</u>	<u>\$ 6,530</u>	<u>\$ (1,421)</u>	<u>\$ -</u>	<u>\$ 208,445</u>

Amortization expense on equipment held under capital lease which is included within depreciation and amortization expense in the consolidated basic statements of revenues, expenses, and changes in net position was approximately \$2,536,000 and \$3,121,000 for the years ended June 30, 2017 and 2016, respectively.

7. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2017 and 2016:

<i>(in thousands of dollars)</i>	2017	2016
Notes Payable:		
2011 Shands Note Payable, final maturity October 2030	\$ 16,215	\$ 17,071
Series 2015A, Revolving Line of Credit, matures March 2020, unless extended	20,000	20,000
Healthcare Facilities Revenue Bonds:		
Series 2015, UF Health Project, final maturity June 2025	16,589	18,392
Series 2015, final maturity February 2045	85,000	85,000
Series 2013A, final maturity February 2033	62,490	64,240
Series 2013B, final maturity February 2029	<u>50,390</u>	<u>53,535</u>
	250,684	258,238
Net unamortized bond premium	<u>1,327</u>	<u>1,459</u>
Total long-term debt	252,011	259,697
Less: Current portion	<u>(7,869)</u>	<u>(7,555)</u>
Long-term portion	<u>\$ 244,142</u>	<u>\$ 252,142</u>

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

<i>(in thousands of dollars)</i>	Balance at June 30, 2016			Balance at June 30, 2017		Amounts Due Within One Year
	Additions	Reductions				
Notes Payable:						
2011 Shands Note Payable	\$ 17,071	\$ -	\$ (856)	\$ 16,215	\$ 894	
Series 2015A, Revolving Line of Credit	20,000	-	-	20,000	-	
Healthcare Facilities Revenue Bonds:						
Series 2015, UF Health Project	18,392	-	(1,803)	16,589	1,857	
Series 2015	85,000	-	-	85,000	-	
Series 2013A	64,240	-	(1,750)	62,490	1,835	
Series 2013B	53,535	-	(3,145)	50,390	3,290	
Total long-term debt	<u>\$ 258,238</u>	<u>\$ -</u>	<u>\$ (7,554)</u>	<u>\$ 250,684</u>	<u>\$ 7,876</u>	

<i>(in thousands of dollars)</i>	Balance at June 30, 2015			Balance at June 30, 2016		Amounts Due Within One Year
	Additions	Reductions				
Notes Payable:						
2011 Shands Note Payable	\$ 35,777	\$ -	\$ (18,706)	\$ 17,071	\$ 855	
Series 2015A, Revolving Line of Credit	20,000	-	-	20,000	-	
Healthcare Facilities Revenue Bonds:						
Series 2015, UF Health Project	20,000	-	(1,608)	18,392	1,802	
Series 2015	-	85,000	-	85,000	-	
Series 2013A	64,240	-	-	64,240	1,750	
Series 2013B	56,540	-	(3,005)	53,535	3,145	
Total long-term debt	<u>\$ 196,557</u>	<u>\$ 85,000</u>	<u>\$ (23,319)</u>	<u>\$ 258,238</u>	<u>\$ 7,552</u>	

The current portion of net unamortized bond discount was approximately \$7,000 as of June 30, 2017 and the current portion of net unamortized bond premium was approximately \$3,000 as of June 30, 2016.

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

(in thousands of dollars)

Year Ending June 30,	Debt Service	
	Principal	Interest
2018	\$ 7,876	\$ 10,158
2019	8,240	9,942
2020	28,540	9,570
2021	6,815	9,085
2022	7,094	8,948
2023-2027	46,990	41,572
2028-2032	38,894	32,594
2033-2037	58,165	16,977
2038-2042	23,475	10,280
2043-2046	24,595	2,999
	<u>\$ 250,684</u>	<u>\$ 152,125</u>

Cash paid for interest was approximately \$7,223,000 and \$8,141,000 for the years ended June 30, 2017 and 2016, respectively. Capitalized interest was approximately \$1,539,000 and \$158,000 for the years ended June 30, 2017 and 2016, respectively.

See Note 12 for further description of the 2011 Shands Note Payable.

Series 2015 Healthcare Facilities Revenue Bonds

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

Series 2015 Healthcare Facilities Revenue Bonds

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

Series 2015A Revolving Line of Credit

On March 1, 2015, the Company entered into an interest only \$20 million Revolving Line of Credit Note, Series 2015A, and was advanced the entire amount, which is due and payable in full by March 2020, unless extended. The proceeds of the Revolving Line of Credit, Series 2015A were used for general corporate purposes and capital expenditures.

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Series 2013A and 2013B Healthcare Facilities Revenue Bonds

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

Debt Covenants

The Company’s Obligated Group is subject to certain restrictive covenants. At June 30, 2017, the Company’s most restrictive covenants require cash on hand of at least 50 days, a minimum debt service coverage ratio of 1.0, and a maximum funded debt to total assets ratio of not more than 0.70. In December 2016, the Company obtained an amendment to the cash on hand covenant with respect to the Series 2015A Revolving Line of Credit and the Series 2015, UF Health Project, Healthcare Facilities Revenue Bonds, which resulted in reduction from 60 days to 50 days at June 30, 2017. The cash on hand covenant reverts to 60 days on June 30, 2018 and going forward. The Company’s Obligated Group was in compliance at June 30, 2017.

8. Interest Rate Swaps

On June 30, 2017 and 2016, the Company had the following derivative instruments outstanding, which are recorded in other assets (liabilities) in the accompanying consolidated basic statements of net position:

<i>(in thousands)</i>		Company	Counterparty				2017	2016
Type	Objective	Notional Amount	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value	Fair Value
Fixed rate payer interest rate swap	Hedge changes in interest rate	\$ 12,650	\$ 12,650	1/30/2004	2/1/2021	Receive 67% of USD-LIBOR-BBA, Pay Fixed 3.337%	\$ (595)	\$ (1,161)
Fixed rate payer interest rate swap	Hedge changes in interest rate	16,589	16,589	6/29/2015	6/30/2025	Receive 65% of USD-LIBOR-BBA + 120 basis point spread, Pay Fixed 2.7350%	(215)	(773)
Total return interest rate swap	Hedge costs of borrowing	87,268	85,000	12/10/2015	12/10/2020	Receive Fixed 5.25%, Pay 70% of USD-LIBOR-BBA + 195 basis point spread	4,171	8,822
							\$ 3,361	\$ 6,888

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The fair value of the nonhedged \$12,650,000 interest rate swap is estimated using the present value of expected discounted future cash flows based on the maturity date and is recorded in other nonoperating losses in the accompanying consolidated basic statements of revenues, expenses, and changes in net position. The fair value of the hedged \$16,589,000 and \$85,000,000 interest rate swaps are recorded in deferred outflows and inflows of resources, respectively, in the accompanying consolidated basic statements 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, 2017 and 2016, the credit ratings, from various credit rating agencies, for Merrill Lynch Capital Services, Inc., the swap counterparty for the \$12,650,000 and \$85,000,000 swaps, are A/Baa1/BBB+. The credit ratings, from various credit rating agencies, for the \$16,589,000 Compass Bank counterparty's swap are A-/Baa1/BBB+ and BBB+/Baa3/BBB+ at June 30, 2017 and 2016, respectively.

Interest Rate Risk

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

Basis Risk

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

Termination Risk

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

Commitments

The Company's fixed rate interest rate swap agreements require collateral to be posted if the fair value of the interest rate swap is negative and meets certain thresholds. The threshold amount depends on the Company's unenhanced credit rating as determined by Fitch Ratings. The Company's total return swap requires collateral to be posted based on exposure when the product of the bond amounts multiplied by the difference between the fair market value price and the base price of the bond. Collateral balances were approximately \$2,745,000 and \$1,605,000 at June 30, 2017 and 2016, respectively.

9. Employee Benefit Plans

Defined Contribution Plan

SJMC has a defined contribution plan which allows participants to defer up to 6% of their salary, pursuant to Section 401(k) of the Internal Revenue Code and all limitations contained therein. Effective January 1, 2016, SJMC matches up to 6% of the salary of all eligible employees. Previously, SJMC made contributions of 3% of the salary of all eligible employees and matched employee contributions up to a maximum of an additional 2.25% of their salary. Contributions to this plan by SJMC were approximately \$8,569,000 and \$7,045,000 for the years ended June 30, 2017 and 2016, respectively.

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Defined Benefit Pension Plan

Plan Description

The Company participates in the Plan, which is an agent employer defined benefit pension plan that covers eligible Company employees who were hired as of June 30, 2010. The Plan was subsequently frozen effective July 1, 2013. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended. The Plan’s stand-alone financial statements are filed with the Internal Revenue Service Form 5500, which is available to the public on the Department of Labor’s Employee Benefits Security Administration website.

Benefits Provided

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

Benefit terms provide for annual cost-of-living adjustments to retired participants and beneficiaries of participants. Benefit payments are adjusted each October 1 following benefit commencement to reflect the changes in the Consumer Price Index for the twelve months ending the preceding June 30. The increase or decrease is limited to 3% per year, and may not decrease below the amount of benefit payable at retirement (for retired participants) or at the death of the participant (for beneficiaries of participants).

Employees Covered by Benefit Terms

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

Participant data as of July 1, 2015

Active	7
Retired	521
Terminated vested	185
	<u>713</u>

Contributions

The Plan’s funding policy is to make contributions to meet the minimum funding requirements of Internal Revenue Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, the Company may contribute an amount above the required contribution. The Company’s contributions of approximately \$2,071,000 and \$1,241,000 for the years ended June 30, 2017 and 2016, respectively, meet the minimum funding requirements of ERISA.

Net Pension Liability

The Company’s net pension liability as of June 30, 2017 was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability as of June 30, 2016 was determined based on the results of an actuarial valuation as of July 1, 2015 projected forward to June 30, 2016 using standard actuarial techniques.

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

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

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

Salary increase: Not applicable

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

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

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

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

Asset Class	Target Allocation	Real Rate of Return
Domestic equity	26.0%	4.95%
International equity	26.0%	5.15%
Core fixed income	12.5%	1.95%
Long duration fixed income	10.0%	2.75%
Long credit fixed income	10.0%	3.60%
High yield fixed income	8.0%	4.80%
Private equity	7.5%	7.95%
Total	<u>100.0%</u>	

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

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

(in thousands of dollars)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at June 30, 2016	\$ 76,188	\$ 70,096	\$ 6,092
Changes for the year:			
Service cost	-	-	-
Interest	4,738	-	4,738
Difference between expected and actual experience	(714)	-	(714)
Employer contributions	-	1,241	(1,241)
Net investment income	-	487	(487)
Benefit payments	(7,942)	(7,942)	-
Administrative expense	-	(663)	663
Other changes	(2,637)	-	(2,637)
Net changes	(6,555)	(6,877)	322
Balances at June 30, 2017	\$ 69,633	\$ 63,219	\$ 6,414

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

(in thousands of dollars)

	Fair Value	Quoted Prices In Active Markets for Identical Instruments (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income funds	\$ 27,212	\$ 12,683	\$ 14,529	\$ -
Equity funds	18,466	-	18,466	-
Common stock	14,549	14,549	-	-
Total investments by fair value level	60,227	\$ 27,232	\$ 32,995	\$ -
Investments measured at the NAV:				
Private equity funds	2,708			
Total investments measured at the NAV	2,708			
Total investments measured at fair value	62,935			
Other				
Other plan net assets, net	284			
	\$ 63,219			

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

(in thousands of dollars)

Fair Value	Quoted Prices In Active Markets for Identical Instruments (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:			
Interest bearing cash	\$ 16	\$ 16	\$ -
Fixed income funds	27,581	13,604	13,977
Equity funds	21,564	-	21,564
Common stock	17,640	17,640	-
Total investments by fair value level	66,801	\$ 31,260	\$ 35,541
Investments measured at the NAV:			
Private equity funds	3,003		
Total investments measured at the NAV	3,003		
Total investments measured at fair value	69,804		
Other			
Other plan net assets, net	292		
\$ 70,096			

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

(in thousands of dollars)

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	\$ 12,371	\$ 6,414	\$ 1,277

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

The Company recognized pension expense of approximately \$1,655,000 and \$1,282,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, the Company reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

(in thousands of dollars)

	Deferred Outflows of Resource	Deferred Inflows of Resource
Differences between expected and actual experience	\$ 359	\$ 532
Changes of assumptions	2,760	1,964
Net differences between projected and actual earnings on pension plan investments	1,512	-
Contributions made during the year ended June 30, 2017 not yet recognized in net fiduciary position	2,071	-
Total	<u>\$ 6,702</u>	<u>\$ 2,496</u>

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

(in thousands of dollars)

Years Ending	
2018	\$ 294
2019	522
2020	542
2021	776
Thereafter	-

Payable to the Defined Benefit Pension Plan

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

10. Other Postemployment Benefits

SJMC sponsors the Shands Jacksonville Health Plan (the "Health Plan"). In addition to providing pension benefits, the Company provides certain health care benefits for retired employees and spouses. For the year ended June 30, 2017, medical benefits were provided to 27 retirees and 3 spouses and dental benefits were provided to 212 retirees and 50 spouses. The actuarially determined cost for providing benefits to retirees and current employees during fiscal years 2017 and 2016 was approximately \$876,000 and \$760,000, respectively. SJMC made approximately \$257,000 and \$315,000 of actual payments (contributions) during fiscal years 2017 and 2016, respectively.

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11. Commitments and Contingencies

Leases

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

The following is a schedule, by year, of future minimum lease payments under noncancelable operating leases as of June 30, 2017:

(in thousands of dollars)

Years Ending	
2018	\$ 17,884
2019	16,061
2020	14,348
2021	11,815
2022	8,646
Thereafter	<u>44,905</u>
Total minimum lease payments	<u>\$ 113,659</u>

Rent expense related to operating leases for the years ended June 30, 2017 and 2016 was approximately \$18,827,000 and \$18,537,000, respectively.

Total gross assets under capital leases included in capital assets were approximately \$18,608,000 and \$18,582,000 at June 30, 2017 and 2016, respectively. Accumulated amortization on capital leases at June 30, 2017 and 2016 was approximately \$13,937,000 and \$11,401,000, respectively.

Future capital lease payments are as follows:

(in thousands of dollars)

Years Ending	
2018	\$ 1,246
2019	1,118
2020	1,028
2021	994
2022	<u>663</u>
Total minimum lease payments	5,049
Less: Amount representing interest	<u>(367)</u>
Present value of net minimum lease payments	<u>\$ 4,682</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

Construction and Other Commitments

The Company's construction-in-progress at June 30, 2017 consists primarily of costs incurred in construction of the 92-bed tower at UF Health North for the portion of the new tower that was not placed in service at year-end. Construction payable was approximately \$659,000 at June 30, 2017. The remaining commitments related to this contract are approximately \$4,358,000, which includes retainage of \$1,097,000, at June 30, 2017.

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

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

Self-Insurance

The Company has a self-insurance plan for health and medical coverage for the employees of the Company. Amounts contributed by the Company and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expenses related to the self-insured health and medical plan for the years ended June 30, 2017 and 2016 were approximately \$27,091,000 and \$25,233,000, 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 expenses for the years ended June 30, 2017 and 2016 were approximately \$911,000 and \$1,122,000, respectively.

Litigation

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2017 and 2016

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.

In addition, the Affordable Care Act requires organizations who receive overpayments from Medicare and other federal programs whether due to inappropriate billings, lack of required documentation, or other reasons, to report and return such amounts. The Company routinely conducts reviews of the accuracy of the billing system in place, as well investigates any allegations that may indicate inappropriate billings or receipt of overpayments. The Company has made and will continue to make routine refunds of any identified overpayments to the fiscal intermediaries. The Company may also make repayments to the Office of the Inspector General of the Department of Health and Human Services through the use of the Self-Referral Disclosure Protocol. Such overpayments result from inaccurate or ineligible billings. In some cases, these disclosures may result in the Company refunding the overpayment and paying penalties as they may be assessed.

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

At June 30, 2017 and 2016, the Company believes that the liability recorded in estimated third party payor settlements on the consolidated basic statements of net position is the Company's best estimate of amounts due to Medicare, Medicaid and other third party payors for settlements related to outstanding cost reports and any overpayments. These matters, once resolved, could result in settlements that differ from the amounts accrued.

12. Transactions with Related Parties

As of June 30, 2017, SJMC and University of Florida Jacksonville Physicians, Inc. ("UFJP") were contingently liable as joint and several co-guarantors for the payment of 100% of both the principal and interest on \$8,500,000 of Industrial Revenue Bonds related to the indebtedness of the Faculty Clinic, Inc. The guarantees were issued in connection with the Industrial Revenue Bonds, which were used to build the facility in which SJMC and UFJP are currently tenants. The bonds were issued on January 11, 1989, bearing variable interest rates and mature on July 1, 2019. At June 30, 2017, the outstanding amount of the Industrial Revenue Bonds is \$2,100,000. The bonds are collateralized by an irrevocable letter of credit with a bank which expires in August 2018.

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 \$6,882,000 and \$6,503,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, the Company owed Shands approximately \$428,000 and \$451,000, respectively.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2017 and 2016

SJMC supports UF College of Medicine – Jacksonville’s clinical, teaching and research activities and contracts for certain medical services from UFJP. These expenditures were approximately \$70,869,000 and \$68,644,000 for the years ended June 30, 2017 and 2016, respectively, of which approximately \$34,118,000 and \$33,355,000 for the years ended June 30, 2017 and 2016, respectively, are transfers and expenditures in support of UF and its medical programs included under this caption in the accompanying consolidated basic statements of revenue, expenses, and changes in net position. At June 30, 2017 and 2016, payables related to this arrangement amounted to approximately \$402,000 and \$542,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

At June 30, 2017 and 2016, the Company has a note payable (“2011 Shands Note Payable”) of approximately \$16,215,000 and \$17,071,000, respectively, due to Shands. The original amount of the note was approximately \$42,276,000 to be paid in quarterly installments of \$804,620 including interest of 4.5% and matures on October 1, 2030. On September 28, 2015, after assessment of each organization’s financial position, the Company’s Board of Directors agreed to accept an offer from the Shands Board of Directors to a reduction of approximately \$17,687,000 in the note payable, effective July 1, 2015, which was approved by the Shands Board of Directors on September 30, 2015. Beginning with the payment due on October 1, 2015, quarterly installments of principal and interest became \$402,310, with the interest rate and maturity date remaining unchanged. The current portion of the note payable of approximately \$894,000 and \$856,000 is included within long-term debt, current portion, and the long-term portion of the note payable of approximately \$15,321,000 and \$16,215,000 is included within long-term debt, noncurrent portion, at June 30, 2017 and 2016, respectively, in the accompanying consolidated basic statements of net position.

Also, on September 25, 2015, the Company offered, and Shands accepted, application of an interest rate of 3% to the monthly amounts outstanding back to July 2011 through June 2015 for its share of EPIC implementation costs that Shands had allowed the Company to pay over time on an interest-free basis. The impact of this action was to increase accounts payable by approximately \$1,584,000, which was recorded in the Company’s 2016 financial results. During 2016, the Company paid the interest in its entirety.

The net result of the transactions agreed to during September 2015 of \$16,103,000 are reflected in other changes in net position in the Company’s June 30, 2016 financial results.

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:

	2017	2016
Medicare	25%	28%
Medicaid	27%	24%
Managed Care	21%	22%
Other third-party payors	27%	26%
	<u>100%</u>	<u>100%</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2017 and 2016

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

14. Subsequent Events

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)
Years Ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Total pension liability		
Service cost	\$ -	\$ -
Interest	4,738	4,911
Changes of benefit terms	-	-
Differences between expected and actual experience	(714)	769
Changes of assumptions	(2,637)	5,873
Benefit payments	<u>(7,942)</u>	<u>(6,196)</u>
Net change in total pension liability	(6,555)	5,357
Total pension liability – beginning	<u>76,188</u>	<u>70,831</u>
Total pension liability – ending (a)	<u>\$ 69,633</u>	<u>\$ 76,188</u>
Plan fiduciary net position		
Employer contributions	\$ 1,241	\$ 1,408
Net investment income	487	2,358
Benefit payments	(7,942)	(6,196)
Administrative expense	<u>(663)</u>	<u>(579)</u>
Net change in fiduciary net position	(6,877)	(3,009)
Plan fiduciary net position – beginning	<u>70,096</u>	<u>73,105</u>
Plan fiduciary net position – ending (b)	<u>\$ 63,219</u>	<u>\$ 70,096</u>
Net pension liability (asset) – ending (a)-(b)	<u>\$ 6,414</u>	<u>\$ 6,092</u>
Plan fiduciary net position as a percentage of total pension liability	90.79%	92.00%

Notes to Schedule

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

Changes of assumptions 2017:

The investment return assumption was increased from 6.5% to 6.75% to reflect the updated capital market outlook.

Changes of assumptions 2016:

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

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

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

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Employer Contributions (Unaudited)
June 30, 2008 Through June 30, 2017

<i>(in thousands of dollars)</i>	2017	2016
Actuarially determined contribution	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	<u>2,071</u>	<u>1,241</u>
Contribution excess	<u>\$ (2,071)</u>	<u>\$ (1,241)</u>

Notes to Schedule

Contributions are based on ERISA minimum funding requirements and shown for the plan year. Assumptions and methods used to determine those contributions vary by year, but for the most recent year are:

Valuation date	July 1, 2016
Actuarial cost method	Projected Unit Credit
Asset valuation method	Market value including receivables
Inflation	2.00%
Investment rate of return	6.50% net of pension plan investment expense, including inflation
Salary increase	N/A
Retirement age	Traditional plan and retirement growth account retirement rates vary by age
Mortality	RP-2014 mortality tables adjusted to remove post-2007 improvement projections with future mortality improvement that follows the Mercer Modified MP2016 mortality improvement tables.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2017

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group ⁽¹⁾	Other	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	\$ 85,792	\$ 4,622	\$ -	\$ 90,414
Short-term investments	11,419	6	-	11,425
Patient accounts receivable, net	107,422	-	-	107,422
Inventories	16,273	-	-	16,273
Prepaid expenses and other current assets	54,974	11,653	(55,286)	11,341
Assets whose use is restricted, current portion	2,745	-	-	2,745
Total current assets	<u>278,625</u>	<u>16,281</u>	<u>(55,286)</u>	<u>239,620</u>
Assets whose use is restricted	32,752	-	-	32,752
Capital assets, net	244,108	21,573	-	265,681
Other assets	19,044	2,198	-	21,242
Total assets	<u>574,529</u>	<u>40,052</u>	<u>(55,286)</u>	<u>559,295</u>
Deferred outflows of resources				
Accumulated decrease in fair value of hedge derivatives	215	-	-	215
Deferred pension outflows	6,702	-	-	6,702
Total deferred outflows of resources	<u>6,917</u>	<u>-</u>	<u>-</u>	<u>6,917</u>
Liabilities				
Current liabilities				
Long-term debt, current portion	7,869	-	-	7,869
Capital lease obligations, current portion	1,105	-	-	1,105
Accounts payable and accrued expenses	59,204	42,830	(55,286)	46,748
Accrued salaries and leave payable	30,163	-	-	30,163
Estimated third-party payor settlements	21,160	-	-	21,160
Total current liabilities	<u>119,501</u>	<u>42,830</u>	<u>(55,286)</u>	<u>107,045</u>
Long-term liabilities				
Long-term debt, noncurrent portion	244,142	-	-	244,142
Capital lease obligations, noncurrent portion	3,577	-	-	3,577
Other liabilities	13,081	6	-	13,087
Total long-term liabilities	<u>260,800</u>	<u>6</u>	<u>-</u>	<u>260,806</u>
Total liabilities	<u>380,301</u>	<u>42,836</u>	<u>(55,286)</u>	<u>367,851</u>
Deferred inflows of resources				
Accumulated increase in fair value of hedge derivatives	4,171	-	-	4,171
Deferred pension inflows	2,496	-	-	2,496
Total deferred inflows of resources	<u>6,667</u>	<u>-</u>	<u>-</u>	<u>6,667</u>
Commitments and contingencies				
Net position				
Net investment in capital assets	29,757	21,573	-	51,330
Restricted				
Expendable	3,395	1,399	-	4,794
Unrestricted	161,326	(25,756)	-	135,570
Total net position	<u>\$ 194,478</u>	<u>\$ (2,784)</u>	<u>\$ -</u>	<u>\$ 191,694</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2016

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group ⁽¹⁾	Other	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	\$ 68,932	\$ 4,965	\$ -	\$ 73,897
Short-term investments	40,967	-	-	40,967
Patient accounts receivable, net	103,657	-	-	103,657
Inventories	14,780	-	-	14,780
Prepaid expenses and other current assets	52,337	11,019	(53,128)	10,228
Assets whose use is restricted, current portion	1,605	-	-	1,605
Total current assets	<u>282,278</u>	<u>15,984</u>	<u>(53,128)</u>	<u>245,134</u>
Assets whose use is restricted	92,475	-	-	92,475
Capital assets, net	186,250	22,195	-	208,445
Other assets	19,021	2,898	-	21,919
Total assets	<u>580,024</u>	<u>41,077</u>	<u>(53,128)</u>	<u>567,973</u>
Deferred outflows of resources				
Accumulated decrease in fair value of hedge derivatives	773	-	-	773
Deferred pension outflows	6,567	-	-	6,567
Total deferred outflows of resources	<u>7,340</u>	<u>-</u>	<u>-</u>	<u>7,340</u>
Liabilities				
Current liabilities				
Long-term debt, current portion	7,555	-	-	7,555
Capital lease obligations, current portion	2,525	-	-	2,525
Accounts payable and accrued expenses	54,602	42,441	(53,128)	43,915
Accrued salaries and leave payable	24,473	-	-	24,473
Estimated third-party payor settlements	23,217	-	-	23,217
Total current liabilities	<u>112,372</u>	<u>42,441</u>	<u>(53,128)</u>	<u>101,685</u>
Long-term liabilities				
Long-term debt, noncurrent portion	252,142	-	-	252,142
Capital lease obligations, noncurrent portion	4,693	-	-	4,693
Other liabilities	13,508	6	-	13,514
Total long-term liabilities	<u>270,343</u>	<u>6</u>	<u>-</u>	<u>270,349</u>
Total liabilities	<u>382,715</u>	<u>42,447</u>	<u>(53,128)</u>	<u>372,034</u>
Deferred inflows of resources				
Accumulated increase in fair value of hedge derivatives	8,822	-	-	8,822
Deferred pension inflows	3,101	-	-	3,101
Total deferred inflows of resources	<u>11,923</u>	<u>-</u>	<u>-</u>	<u>11,923</u>
Commitments and contingencies				
Net position				
Net investment in capital assets	22,052	22,195	-	44,247
Restricted				
Expendable	3,395	728	-	4,123
Unrestricted	167,279	(24,293)	-	142,986
Total net position	<u>\$ 192,726</u>	<u>\$ (1,370)</u>	<u>\$ -</u>	<u>\$ 191,356</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and
Changes in Net Position
Year Ended June 30, 2017

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group ⁽¹⁾	Other	Eliminations	Consolidated Total
Operating revenues				
Net patient service revenue, net of provision for bad debts of \$78,845	\$ 683,620	\$ -	\$ -	\$ 683,620
Other operating revenue	10,503	2,584	(299)	12,788
Total operating revenues	<u>694,123</u>	<u>2,584</u>	<u>(299)</u>	<u>696,408</u>
Operating expenses				
Salaries and benefits	306,559	335	-	306,894
Supplies and services	317,311	1,568	(299)	318,580
Depreciation and amortization	30,154	622	-	30,776
Total operating expenses	<u>654,024</u>	<u>2,525</u>	<u>(299)</u>	<u>656,250</u>
Operating income	<u>40,099</u>	<u>59</u>	<u>-</u>	<u>40,158</u>
Nonoperating revenues (expenses)				
Interest	(7,328)	-	-	(7,328)
Net investment gain, including change in fair value	489	23	-	512
Gain on disposal of capital assets, net	955	-	-	955
Other nonoperating gain (losses), net	566	(700)	-	(134)
Total nonoperating expense, net	<u>(5,318)</u>	<u>(677)</u>	<u>-</u>	<u>(5,995)</u>
Excess (deficit) of revenues over expenses before transfers and capital contributions	34,781	(618)	-	34,163
Transfers and expenditures in support of the University of Florida and its medical programs	(34,118)	-	-	(34,118)
Capital contributions, net	1,089	(796)	-	293
Increase (decrease) in net position	<u>1,752</u>	<u>(1,414)</u>	<u>-</u>	<u>338</u>
Net position				
Beginning of year	192,726	(1,370)	-	191,356
End of year	<u>\$ 194,478</u>	<u>\$ (2,784)</u>	<u>\$ -</u>	<u>\$ 191,694</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and
Changes in Net Position
Year Ended June 30, 2016

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group ⁽¹⁾	Other	Eliminations	Consolidated Total
Operating revenues				
Net patient service revenue, net of provision for bad debts of \$102,995	\$ 650,587	\$ -	\$ -	\$ 650,587
Other operating revenue	12,760	2,390	(299)	14,851
Total operating revenues	<u>663,347</u>	<u>2,390</u>	<u>(299)</u>	<u>665,438</u>
Operating expenses				
Salaries and benefits	282,361	326	-	282,687
Supplies and services	309,022	1,800	(299)	310,523
Depreciation and amortization	31,210	622	-	31,832
Total operating expenses	<u>622,593</u>	<u>2,748</u>	<u>(299)</u>	<u>625,042</u>
Operating income (loss)	<u>40,754</u>	<u>(358)</u>	<u>-</u>	<u>40,396</u>
Nonoperating revenues (expenses)				
Interest	(9,154)	-	-	(9,154)
Net investment gain, including change in fair value	10,496	6	-	10,502
Gain on disposal of capital assets, net	17	-	-	17
Other nonoperating losses, net	(1,260)	(1,136)	-	(2,396)
Total nonoperating revenue (expenses), net	<u>99</u>	<u>(1,130)</u>	<u>-</u>	<u>(1,031)</u>
Excess (deficit) of revenues over expenses before transfers and capital contributions	40,853	(1,488)	-	39,365
Transfers and expenditures in support of the University of Florida and its medical programs	(33,355)	-	-	(33,355)
Debt forgiveness, net	16,103	-	-	16,103
Capital contributions, net	30	-	-	30
Increase (decrease) in net position	<u>23,631</u>	<u>(1,488)</u>	<u>-</u>	<u>22,143</u>
Net position				
Beginning of year	169,095	118	-	169,213
End of year	<u>\$ 192,726</u>	<u>\$ (1,370)</u>	<u>\$ -</u>	<u>\$ 191,356</u>

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Note to Supplemental Consolidating Information

Note to Supplemental Consolidating Information

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