Shands Jacksonville HealthCare, Inc. and Subsidiaries

Reports on Federal and State Awards in Accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*
June 30, 2015
EIN: 59-2142859

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Index
June 30, 2015 and 2014

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, 2015 with comparative information as of and for the years ended June 30, 2014 and 2013. 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 SJH. 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. (collectively, "Methodist"), 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 Methodist under SJMC. SJH became the sole member of both SJMC and Methodist.

The Affiliation was approved by the City and secured creditors of both UMC and Methodist. 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.

The accompanying consolidated basic financial statements include the accounts of SJH, SJMC, Methodist and other subsidiaries of SJH as of and for the years ended June 30, 2015 and 2014. 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."

As more fully described on page 14, the Company adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* ("GASB No. 68") as of July 1, 2014 and, as required, adjusted net position as of July 1, 2013 and restated the consolidated basic statement of net position as of June 30, 2014. The following table reflects the changes to the consolidated basic statement of net position as of June 30, 2014 resulting from retroactive application of GASB No. 68:

	Balances as of June 30, 2014		
(in thousands of dollars)	**As Reported**	**As Restated**	**Change**
Other assets	$ 31,937	$ 16,978	$ (14,959)
Deferred outflows of resources	-	4,165	4,165
Other liabilities	41,339	47,028	5,689
Deferred inflows of resources	-	3,159	3,159
Net position, unrestricted	123,421	103,779	(19,642)

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.

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

(in thousands of dollars)	2015	2014	2013	
Cash and cash equivalents and short-term investments	$ 113,580	$ 74,210	$ 89,350	
Other current assets	113,812	115,939	106,482	
Capital assets, net	203,336	200,256	170,987	
Other noncurrent assets	43,294	54,254	66,372	(1)
Total assets	474,022	444,659	433,191	(1)
Deferred outflows of resources	2,911	4,165	174	(1)
Current liabilities	96,607	89,953	109,269	
Noncurrent liabilities	203,691	207,007	158,362	(1)
Total liabilities	300,298	296,960	267,631	(1)
Deferred inflows of resources	7,422	3,159	-	(1)
Net position				
Net investment in capital assets	52,469	40,843	62,505	
Restricted:				
Expendable	4,093	4,083	3,887	
Unrestricted	112,651	103,779	99,342	(1)
Total net position, as restated as of June 30, 2014	$ 169,213	$ 148,705	$ 165,734	(1)

(1) The 2013 amounts for these line items are not directly comparable to the 2015 and 2014 amounts due to the adoption of GASB No. 68 effective July 1, 2013.

During 2015, cash and cash equivalents and short-term investments increased by approximately $39.4 million, or 53.1%. Cash generated from operations was approximately $58.4 million. During 2014, cash and cash equivalents and short-term investments decreased by approximately $15.1 million, or 16.9%. Cash generated from operations was approximately $23.6 million. See "Consolidated Basic Statement of Cash Flows" section below for further information regarding cash activity.

Other current assets decreased by approximately $2.1 million, or 1.8%, during 2015. The decrease consists of the following: an increase in net patient accounts receivable of $9.7 million, primarily related to the opening of UF Health North and a new oncology infusion clinic, a decrease in the amount due from city and state agencies of $12.4 million and a combined net increase in prepaid expenses, inventories and assets whose use is limited of approximately $0.5 million. During 2014, other current assets increased approximately $9.5 million, or 8.9%. The increase consists of $2.1 million for advanced payments of July 2014 rents during June 2014 and an amount being held on the Company's behalf by the University of Florida Foundation; a $1.2 million increase in inventories upon finalizing annual counts; a $10.6 million increase in amounts due from City and State agencies, as a result of delays in the processing of payments at the Agency for Healthcare Administration ("AHCA"); which were offset by a decrease of $4.4 million in net patient accounts receivable.

During 2015, capital assets, net, increased approximately $3.1 million, or 1.5%, primarily for equipment purchases related to a free standing emergency department and other hospital based operations in a new medical office building ("MOB"), known as UF Health North, which opened February 17, 2015. During 2014, build to suit accounting rules required the Company to recognize approximately $29.5 million of construction-in-progress and a related long-term liability because the MOB was being built on the

Company's land, though the Company neither has title to the MOB or responsibility for the debt related to the construction of it. In June 2015, the Company de-recognized the capital assets and long-term liability after finalizing accounting treatment under sale leaseback accounting rules. The increase of approximately $29.3 million, or 17.1%, during 2014, was primarily related to the aforementioned accounting treatment of MOB construction costs.

Other noncurrent assets decreased approximately $11.0 million, or 20.2%, during 2015. The reduction occurred primarily from using the remaining Series 2013A project fund balances for their intended purpose. During 2014, other noncurrent assets decreased approximately $12.1 million, or 18.3%, primarily upon implementation of GASB No. 68, as discussed above, when the originally reported pension asset of $15.9 million at June 30, 2014 was adjusted to a liability. This decrease was offset by an increase in the investment the Company has in a Medicaid Provider Service Network (known as First Coast Advantage or "FCA") related to the change in accounting for FCA revenue upon creating a separate legal entity for that business line on February 1, 2013.

During 2015, deferred outflows of resources decreased by approximately $1.3 million, or 30.1%, primarily due to pension contributions. Also during 2015, the Company retrospectively implemented GASB No. 68 effective July 1, 2013, which impacted deferred outflows results for 2014, but not for 2013, causing an increase of approximately $4.0 million, or 2,293.7%, for this 2014 only change.

During 2015, other current liabilities increased approximately $6.7 million, or 7.4%. Contributors to the increase include a $4.5 million increase in estimated third party liabilities; a $2.4 million increase for the current portion due on new long-term debt and leases, which are discussed further below; a $1.4 million increase in trade accounts payable and other accrued expenses, which are offset by a $2.2 million decrease for accrued salaries and leave payable. During 2014, other current liabilities decreased approximately $19.3 million, or 17.7%, primarily due to the payout of a $6.7 million settlement, other third-party related activity and timing of accounts payable and other accrued expense payments.

Other noncurrent liabilities decreased approximately $3.3 million, or 1.6%, during 2015, from the following activity: a decrease of $29.5 million resulting from the de-recognition of the MOB capital assets, as previously discussed; a decrease of $6.6 million for the long-term portion of amounts due to Shands; and a pension liability decrease of $5.7 million, all of which were offset by an increase of $38.4 million for the long-term portion of two new $20 million loans discussed further below. During 2014, other noncurrent liabilities increased approximately $48.6 million, or 30.7%, primarily from recognizing $29.5 million for the aforementioned accounting treatment of MOB construction costs and from a new debt issue, described further below, that refunded $100 million of debt with the issuance of $123.6 million of debt.

As of June 30, 2015, the Company has approximately $195.9 million in long-term debt outstanding compared to approximately $160.3 million at June 30, 2014. 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 will be used for general corporate purposes and capital 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 is 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 the prior fiscal year, SJMC borrowed approximately $123.6 million with the issuance of Healthcare Facilities Revenue Bonds Series 2013A and 2013B, for approximately $64.2 million and $59.4 million, respectively, on November 21, 2013. The proceeds of this issuance refunded the $100 million Series 2013 Shands Jacksonville Medical Center Taxable Notes, paid for the cost of debt issuance, provided for a debt service reserve fund and was used to reimburse or fund capital projects.

The promissory note owed to Shands for approximately $42.3 million, as mentioned above, was recorded by the Company during fiscal year 2011. The note payable balance at June 30, 2015 is approximately $35.8 million.

On September 30, 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 $17,688,000 in the note due to Shands, effective July 1, 2015. Beginning with the payment due on October 1, 2015, quarterly installments of principal and interest will be $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 $17,688,000 as of July 1, 2015. This will be reflected in the Company's September 30, 2015 financial results.

Previously, the Company was allowed to pay for its share of EPIC implementation costs over time on an interest-free basis. The amount due to Shands was approximately $6,149,000 as of June 30, 2015. 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. The impact of this action will be to increase accounts payable and decrease net position for interest incurred from inception of the arrangement through June 30, 2015 by approximately $1,584,000, when recorded in the Company's September 30, 2015 financial results.

The Company was in compliance with all financial covenants as of June 30, 2015 and 2014.

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)

	2015	2014	2013
Net patient service revenue	$ 577,554	$ 518,542	$ 487,436
Other operating revenue	12,523	22,525	35,440
Total operating revenues	590,077	541,067	522,876
Operating expenses	557,967	508,179	503,175 (1)
Operating Income	32,110	32,888	19,701 (1)
Nonoperating revenue (expenses), net	11,443	(4,744)	(2,673)
Excess of revenues over expenses before transfers and capital contributions	43,553	28,144	17,028 (1)
Other changes in net assets:			
Transfers and expenditures in support of the University of Florida and its medical programs	(23,055)	(23,120)	(22,301)
Capital contributions, net	10	196	44
Increase (decrease) in net position	20,508	5,220	(5,229) (1)
Net position			
Beginning of year, as restated as of July 1, 2013	148,705	143,485	148,714
End of year, as restated as of June 30, 2014	$ 169,213	$ 148,705	$ 143,485

(1) The 2013 amounts for these line items are not directly comparable to the 2015 and 2014 amounts due to the adoption of GASB Statement No. 68 as of July 1, 2013.

Patient Volumes

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

	2015	2014	2013
Inpatient admissions	25,850	24,858	23,971
Outpatient visits	454,001	423,353	417,269

During 2015, inpatient admissions, excluding observation cases, increased by 992, or 4.0%, and outpatient visits increased 30,648, or 7.2%. These increases were primarily from opening UF Health North in February 2015, which generated 847 hospital admissions and 15,521 outpatient visits, and from opening a new infusion oncology center in March 2015, which generated 4,287 outpatient visits. The remainder of the increase is from additional lab services. During 2014, inpatient admissions, excluding observation cases, increased by 887, or 3.7%, and outpatient visits increased by 6,084, or 1.5%.

Operating Revenues

During 2015, patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, increased by approximately $59.0 million, or 11.4%. The increase is primarily related to the new volume from UF Health North and infusion oncology operations, as noted above, and improved payor mix growth in commercial (+2.3%) and Medicare (+1.6%). During 2014, the increase was approximately $31.1 million, or 6.4%, primarily from increases in inpatient and outpatient volumes, a 2.6% increase in surgical cases, and growth in commercial (+7.9%) and Medicare (+2.7%) business.

Other operating revenues decreased during 2015 approximately $10.0 million, or 44.4%, primarily related to a decrease in provider service network settlements because FCA is no longer doing business as a cost center of SJMC and has transitioned to become a separate legal entity as of February 1, 2013. Settlement run out for contracts in effect prior to February 1, 2013 has now ceased. Through an affiliate, FCA is now an investment of SJMC and is discussed further below. During 2014, the Company experienced a decrease of approximately $12.9 million, or 36.4%, including approximately $5.5 million related to FCA and approximately $5.1 million for lower medical records meaningful use stimulus payments.

Operating Expenses

During 2015, operating expenses increased approximately $49.8 million, or 9.8%. Salaries and benefits increased approximately $20.4 million, or 8.4%, which is largely the result of additional staffing for UF Health North and the infusion oncology center, as well as a scheduled 2% merit increase effective January 2015. Supplies and services increased by approximately $24.4 million, or 10.0%, 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 $5.0 million, or 21.7%, primarily related to new equipment and leasehold improvements for UF Health North. During 2014, operating expenses increased by approximately $5.0 million, or 1.0%. Salaries and benefits increased approximately $2.1 million, which is largely the result of a scheduled 2% merit increase effective January 2014, and increased workers' compensation and self-insured employee health claim costs, which were partially offset by the outsourcing of the environmental services, dietary and patient transportation functions. Supplies and services increased in comparison to the prior fiscal year by approximately $3.3 million, which is primarily driven by the aforementioned outsourced functions. The increase in outsourcing expense was partially offset by a decrease in expenses as a result of the accounting changes for FCA, mentioned above.

Nonoperating Revenues (Expenses), net

Nonoperating revenues, net, fiscal year-end June 30, 2015, were approximately $11.4 million, which includes interest expense of approximately $7.3 million, offset by investment income of approximately $18.0 million, including the change in fair value of approximately $0.4 million, and other nonoperating gains of approximately $0.4 million for a fair value increase in nonhedged derivatives, and approximately a $0.3 million for gain on disposal of capital equipment. Included in 2015 investment gains is SJMC's investment share of FCA operations, which included a gain when its membership was sold in December 2014. Nonoperating expenses, net, fiscal year-end June 30, 2014, were approximately $4.7 million, which includes interest expense of approximately $7.6 million, offset by investment income of approximately $4.2 million, including the change in fair value of approximately $0.8 million; other nonoperating gains of approximately $0.3 million for a fair value increase in nonhedged derivatives and approximately $1.7 million for loss on disposal of capital equipment and other fixed assets primarily related to the results of the bi-annual fixed asset inventory.

Consolidated Basic Statements of Cash Flows

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

During 2015, cash and cash equivalents increased by approximately $39.1 million, or 84.2%. Cash inflows were primarily a result of net cash provided by operating activities of $58.4 million, debt proceeds of $40 million and cash provided by investing activities of $31.2 million. Cash outflows included payments of $23.1 million in support of UF and its medical programs, payments for acquisition of capital assets of $48.2 million, and debt, lease, other borrowing and interest payments of $19.4 million. The Company also provided $1.4 million to fund the defined benefit pension plan.

During 2014, cash and cash equivalents decreased by $1.8 million, or 3.6%. Cash inflows were primarily a result of net cash provided by operating activities of $23.6 million, debt proceeds of $23.0 million and cash provided by net investing activities of $13.1 million. Cash outflows included payments of $23.1 million in support of UF and its medical programs, payments for acquisition of capital assets of $19.8 million, debt, lease, other borrowing and interest payments of $18.7 million. The Company also provided $2.4 million to fund the defined benefit pension plan.

Credit Ratings

The Company's underlying credit rating of BBB+ was reaffirmed by Fitch Ratings in October 2014 with a stable outlook. Moody's Investor Service reaffirmed a Baa3 credit rating in October 2014, with a stable outlook.

Report of Independent Certified Public Accountants

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

Report on the Consolidated Basic Financial Statements

We have audited the accompanying consolidated basic financial statements of Shands Jacksonville HealthCare, Inc. and Subsidiaries (the "Company") as of and for the years ended June 30, 2015 and 2014, and the related notes to the consolidated basic financial statements, which collectively comprise the consolidated basic statements of net position, and the related consolidated basic statements of revenues, expenses and changes in net position and the consolidated basic statements of cash flows.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 entity'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.

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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 Subsidiaries as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated basic financial statements, the Company adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, effective July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

The accompanying Management's Discussion and Analysis ("MD&A") (Unaudited) for the years ended June 30, 2015 and 2014 on pages 1 through 7, the Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited), and the Schedule of Employer Contributions (Unaudited) on pages 39 and 40, respectively, 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 GASB who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements. The consolidating information on pages 41 through 44 is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The 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.

Our audit was conducted for the purpose of forming an opinion on the Company's consolidated basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance for the year ended June 30, 2015 are presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General,* and are not a required part of the consolidated basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance are fairly stated, in all material respects, in relation to the consolidated basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ________, 2015 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2015. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 8, 2015

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Net Position
June 30, 2015 and 2014

(in thousands of dollars)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 85,571	$ 46,450
Short-term investments	28,009	27,760
Patient accounts receivable, net of allowance for uncollectibles of $68,928 and $68,110, respectively	87,653	77,909
Due from city and state agencies	3,378	15,781
Inventories	13,820	11,508
Prepaid expenses and other current assets	7,361	10,741
Assets whose use is restricted, current portion	1,600	-
Total current assets	227,392	190,149
Assets whose use is restricted, less current portion	25,927	37,276
Capital assets, net	203,336	200,256
Other assets	17,367	16,978
Total assets	474,022	444,659
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	348	-
Deferred pension assumption loss	1,155	1,726
Deferred pension contributions	1,408	2,439
Total deferred outflows of resources	2,911	4,165
Liabilities		
Current liabilities		
Long-term debt, current portion	6,249	4,429
Capital lease obligations, current portion	3,179	2,154
Accounts payable and accrued expenses	47,955	46,532
Accrued salaries and leave payable	21,679	23,835
Estimated third-party payor settlements	17,545	13,003
Total current liabilities	96,607	89,953
Long-term liabilities		
Long-term debt, noncurrent portion	189,605	155,898
Capital lease obligations, noncurrent portion	6,908	4,081
Other liabilities	7,178	47,028
Total long-term liabilities	203,691	207,007
Total liabilities	300,298	296,960
Deferred inflows of resources		
Deferred pension asset gains	7,422	3,159
Commitments and contingencies		
Net position		
Net investment in capital assets	52,469	40,843
Restricted		
Expendable	4,093	4,083
Unrestricted	112,651	103,779
Total net position, as restated as of June 30, 2014	$ 169,213	$ 148,705

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, 2015 and 2014

(in thousands of dollars)

	2015	2014
Operating revenues		
Net patient service revenue, net of provision for bad debts of $79,654 and $79,902, respectively	$ 577,554	$ 518,542
Other operating revenue	12,523	22,525
Total operating revenues	590,077	541,067
Operating expenses		
Salaries and benefits	262,821	242,420
Supplies and services	267,077	242,695
Depreciation and amortization	28,069	23,064
Total operating expenses	557,967	508,179
Operating income	32,110	32,888
Nonoperating revenues (expenses)		
Interest	(7,269)	(7,586)
Other nonoperating gains	409	335
Net investment gain, including change in fair value	18,031	4,210
Gain (loss) on disposal of capital assets, net	272	(1,703)
Total nonoperating revenues (expenses), net	11,443	(4,744)
Excess of revenues over expenses before transfers and capital contributions	43,553	28,144
Transfers and expenditures in support of the University of Florida and its medical programs	(23,055)	(23,120)
Capital contributions, net	10	196
Increase in net position	20,508	5,220
Net position		
Beginning of year, as restated as of July 1, 2013	148,705	143,485
End of year, as restated as of June 30, 2014	$ 169,213	$ 148,705

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, 2015 and 2014

(in thousands of dollars)

	2015	2014
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 584,754	$ 492,180
Other receipts from operations	15,739	12,702
Salaries and benefits paid to employees	(268,181)	(238,689)
Payments to suppliers and vendors	(273,939)	(242,559)
Net cash provided by operating activities	58,373	23,634
Cash flows from noncapital financing activities		
Interest paid on Shands note	(1,654)	(3,082)
Payments in support of the University of Florida and its medical programs	(23,055)	(23,120)
Payments of long-term debt of Shands	(1,564)	(2,575)
Proceeds from issuance of notes payable	20,000	-
Proceeds from disposal of noncapital assets	11	12
Net cash used in noncapital financing activities	(6,262)	(28,765)
Cash flows from capital and related financing activities		
Payments for capital assets	(48,202)	(19,845)
Proceeds from sale of capital assets	243	25
Proceeds from issuance of note payable	20,000	23,012
Payments of long-term debt and capital lease obligations	(5,238)	(2,514)
Payments of other capital borrowings	(6,021)	(6,500)
Interest paid	(4,957)	(4,076)
Capital contributions	10	196
Net cash used in capital and related financing activities	(44,165)	(9,702)
Cash flows from investing activities		
Investment income received	20,500	665
Investment purchases	(258)	(3,503)
Redemption of short-term investments and assets whose use is restricted	11,351	42,651
Purchase of short-term investments and assets whose use is restricted	(418)	(26,739)
Net cash provided by investing activities	31,175	13,074
Net increase (decrease) in cash and cash equivalents	39,121	(1,759)
Cash and cash equivalents		
Beginning of year	46,450	48,209
End of year	$ 85,571	$ 46,450

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, 2015 and 2014

(in thousands of dollars)

	2015	2014
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 32,110	$ 32,888
Adjustments to operating income to net cash provided by operating activities		
Depreciation and amortization	28,069	23,064
Provision for bad debts	79,654	79,902
Change in accounting for adoption of GASB No. 68	-	(2,607)
Changes in:		
Patient accounts receivable	(76,994)	(86,091)
Prepaid expenses, inventories and other current assets	(682)	(3,399)
Other assets	2,222	1,488
Accounts payable and accrued expenses	(4,240)	(4,607)
Estimated third-party payor settlements	4,542	(17,793)
Other liabilities	(6,308)	789
Total adjustments	26,263	(9,254)
Net cash provided by operating activities	$ 58,373	$ 23,634
Disclosure of supplemental cash flow information		
Capital assets purchased through capital lease obligations and other borrowings	$ 13,219	$ 9,829
Net (decrease) increase in fair value of investments	(168)	307
Net increase in fair value of nonhedged derivatives	409	335
Loss related to undepreciated costs on capital asset disposals	82	1,842
Series 2014 A and B bonds paid directly to redeem Series 2013 notes payable	-	100,000
Accrued purchases of property and equipment	4,958	1,309

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

1. Organization

Shands Jacksonville HealthCare, Inc. ("SJH" or the "Company") formerly known as Jacksonville Health Group, Inc., is a not-for-profit corporation with direct control over Shands Jacksonville Medical Center, Inc. ("SJMC") and direct or indirect control over numerous other entities, all of which are blended in the accompanying consolidated basic financial statements. During 2013, SJMC began doing business as UF Health Jacksonville. SJMC, formerly known as University Medical Center, Inc. ("UMC"), is a 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") under the terms described in Note 11. The teaching hospital is licensed to operate 695 beds and provides clinical settings for medical education programs at 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. Restatement of Prior Year Consolidated Basic Financial Statements

Effective July 1, 2013, the Company adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* ("GASB No. 68"). Shands also adopted GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date, an amendment of GASB Statement No. 68.* GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of GASB Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. To the extent practical, GASB No. 68 requires retrospective adoption, which results in restatement of all prior periods presented.

The effect of adopting GASB No. 68 as of July 1, 2013 was as follows:

(in thousands of dollars)

Net position at June 30, 2013 (as previously reported)	$ 165,734
Increase in net pension liability	(25,565)
Increase in deferred outflows on pension	3,316
Change in net position	(22,249)
Net position at July 1, 2013 (as restated)	$ 143,485

The impact of adopting GASB No. 68 on excess of revenues over expenses before transfers, capital contributions and other changes in net position for the year ended June 30, 2014 was a decrease in expense of approximately $2,607,000, which is reflected in the accompanying consolidated basic statement of revenues, expenses, and changes in net position for the year ended June 30, 2014.

3. 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.

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 $703,000 and $659,000 of unamortized original discounts and premiums for the Series 2013A Bonds at June 30, 2015 and June 30, 2014, respectively, which will be amortized over the remaining periods of the obligations using the effective interest method.

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.

Long-Term Debt
The fair value of long-term debt is estimated based on dealer quotes for hospital 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 carrying amount at June 30, 2015 and 2014 is approximately $196,557,000 and $160,986,000, respectively. The estimated fair value at June 30, 2015 and 2014 is approximately $203,137,000 and $165,883,000, respectively. This value represents a general approximation of possible value and may never actually be realized.

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. Restricted – expendable have restrictions placed on their use through external constraints imposed by contributors. Unrestricted are those that do not meet the definition of net investment in capital assets and have no third-party restrictions on use.

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

Net 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, 2015 and 2014, net patient service revenue increased by approximately $9,130,000 and $21,429,000, 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.

Medicare
The Company participates in the federal Medicare program ("Medicare"). Approximately 28% of the Company's net patient service revenue in both fiscal years 2015 and 2014 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, 2015, the Medicare cost reports were final settled by the Company's Medicare fiscal intermediary through June 30, 2007.

It is management's opinion that settlements of outstanding Medicare costs reports, when received will not vary materially from the estimated amounts, which are recorded as current liabilities in the accompanying consolidated basic statements of net position.

Medicaid
Approximately 18% and 26% of the Company's net patient service revenue in fiscal years 2015 and 2014, 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, 2009. 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.

Effective July 1, 2013, 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.

Effective May 1, 2014, 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 rate used in fiscal year 2015 was based on the unaudited 2013 cost report. The inpatient and outpatient rates used in fiscal year 2014 were based on the unaudited 2012 cost report.

It is management's opinion that settlements of outstanding Medicaid costs reports, when received will not vary materially from the estimated amounts, which are recorded as current liabilities in the accompanying consolidated basic statements of net position.

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 this review 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.

Electronic Medical Records Incentive Program
During the years ended June 30, 2015 and 2014, approximately $1,289,000 and $1,808,000, respectively, was received by the Company for incentives under the Medicare and Medicaid Electronic Medical Record Incentive Program as authorized by the Health Information Technology for Clinical Health Act ("HITEC"). The Company adopted the gain contingency revenue recognition model for HITEC, and recognizes revenue when it demonstrates meaningful use of certified electronic health record technology for the applicable period. Payments received were earned and recognized as other operating revenue in the accompanying consolidated basic statements of revenues, expenses and changes in net position.

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, 2015 and 2014.

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 gains in the consolidated basic statements of revenues, expenses, and changes in net position.

Accounting Pronouncements
In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB No. 72"). GASB No. 72 addresses the definition of fair value, determining a fair value measurement for financial reporting purposes, and provides guidance for applying fair value to certain investments and disclosures related to fair value measurements. GASB No. 72 is effective for fiscal years beginning after June 15, 2015. The Company is currently evaluating the impact GASB No. 72 will have on its consolidated basic financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (“GASB No. 73”). GASB No. 73 establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of GASB No. 68. The requirements of GASB No. 73 extend the approach to accounting and financial reporting established in GASB No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB No. 68 should not be considered pension plan assets. GASB No. 73 also clarifies the application of certain provisions of GASB No. 68. The provisions of GASB No. 73 that address accounting and financial reporting by employers for pensions that are not within the scope of GASB No. 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of GASB No. 73 that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of GASB No. 73 for pensions that are within the scope of GASB No. 68 are effective for fiscal years beginning after June 15, 2015. The Company is currently evaluating the impact GASB No. 73 will have on its consolidated basic financial statements.

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 June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB No. 76”). GASB No. 76 identifies the hierarchy of generally accepted accounting principles. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB No. 76 is effective for fiscal years beginning after June 15, 2015. The Company is currently evaluating the impact GASB No. 76 will have on its consolidated basic financial statements.

4. Unsponsored Community Benefit

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

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

The Company has policies providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and assets criteria. Because the Company does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. The Company maintains records to identify and monitor the level of financial assistance it provides. Charges forgone for services provided under the Company's financial assistance policy for the years ended June 30, 2015 and 2014 were approximately $307,353,000 and $339,992,000, 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.

The Company's valuation of unsponsored community benefits at cost for the years ended June 30, 2015 and 2014 is as follows:

(in thousands of dollars)	**2015**	**2014**
Financial assistance provided	$ 68,761	$ 76,738
Government support applied to charity care	(26,276)	(26,276)
Net unreimbursed financial assistance	42,485	50,462
Benefits for the broader community		
Community health services	913	1,987
Health professions education	17,174	17,714
Donations	36	131
Total quantifiable benefits for the broader community	18,123	19,832
Total community benefits	$ 60,608	$ 70,294

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.

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

The composition of cash, cash equivalents, investments and assets whose use is restricted at June 30, 2015 and 2014 is as follows:

(in thousands of dollars)		Investment Maturities			
2015	**Market Value**	**Less Than 1 Year**	**1–3 Years**	**More Than 4 Years**	**N/A**
Commercial paper	$ 6,427	$ 6,427	$ -	$ -	$ -
Florida Treasury Investment Pool ("SPIA")	28,009	-	28,009	-	-
Money markets	5,394	-	-	-	5,394
Bank deposits	101,277	-	-	-	101,277
	$ 141,107	$ 6,427	$ 28,009	$ -	$ 106,671

(in thousands of dollars)		Investment Maturities			
2014	**Market Value**	**Less Than 1 Year**	**1–3 Years**	**More Than 4 Years**	**N/A**
Commercial paper	$ 17,776	$ 17,776	$ -	$ -	$ -
Florida Treasury Investment Pool ("SPIA")	27,760	-	27,760	-	-
Money markets	5,404	-	-	-	5,404
Bank deposits	60,546	-	-	-	60,546
	$ 111,486	$ 17,776	$ 27,760	$ -	$ 65,950

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, 2015 and 2014:

(in thousands of dollars)	**2015**	**2014**
Internally designated by the Board of Directors for:		
Clinical support, education, research and other health programs	$ 19,500	$ 19,500
Debt service reserve and project funds	6,427	17,776
Held by bank as collateral	1,600	-
	27,527	37,276
Less: Current portion	(1,600)	-
Long-term portion	$ 25,927	$ 37,276

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, 2015 and 2014 is as follows:

(in thousands of dollars)	**Fair**	**Ratings**		
	Value	**AAA**	**A1+/P1**	**A+f**
2015				
Money markets	$ 5,394	$ 5,394	$ -	$ -
Commercial paper	6,427	-	6,427	-
Florida Treasury Investment Pool ("SPIA")	28,009	-	-	28,009
	$ 39,830	$ 5,394	$ 6,427	$ 28,009

(in thousands of dollars)	**Fair**	**Ratings**		
	Value	**AAA**	**A1+/P1**	**A+f**
2014				
Money markets	$ 5,404	$ 5,404	$ -	$ -
Commercial paper	17,776	-	17,776	-
Florida Treasury Investment Pool ("SPIA")	27,760	-	-	27,760
	$ 50,940	$ 5,404	$ 17,776	$ 27,760

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, 2015 and 2014, the Company did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk
As of June 30, 2015 and 2014, 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.

Deposit Risk
In addition to insurance provided by the Federal Deposit Insurance Corporation, all demand deposits are held in banking institutions approved by the State of Florida state treasurer to hold public funds. Under the Florida Statutes Chapter 280, *Florida Security for Public Deposits Act* ("Chapter 280"), the state treasurer requires all qualified public depositories to deposit with the treasurer or another banking institution eligible collateral equal to amounts ranging from 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized.

Investment gain, net for fiscal years 2015 and 2014 is as follows:

(in thousands of dollars)	**2015**	**2014**
Investment income in provider service network	$ 17,630	$ 3,903
Dividends and interest income	569	-
Net (decrease) increase in the fair value of investments	(168)	307
Investment gain, net	$ 18,031	$ 4,210

6. Capital Assets

A summary of changes in capital assets during fiscal years 2015 and 2014 is as follows:

(in thousands of dollars)	**Balance at June 30, 2014**	**Additions**	**Deletions**	**Transfers**	**Balance at June 30, 2015**
Land	$ 24,061	$ -	$ (82)	$ -	$ 23,979
Buildings and leasehold improvements	267,887	-	(43,701)	59,406	283,592
Equipment	160,277	-	(15)	47,224	207,486
Totals at historical cost	452,225	-	(43,798)	106,630	515,057
Less: Accumulated depreciation for					
Buildings and leasehold improvements	(173,609)	(11,514)	-	-	(185,123)
Equipment	(128,211)	(14,842)	15	-	(143,038)
	150,405	(26,356)	(43,783)	106,630	186,896
Construction-in-progress	49,851	73,417	(198)	(106,630)	16,440
Capital assets, net	$ 200,256	$ 47,061	$ (43,981)	$ -	$ 203,336

(in thousands of dollars)	**Balance at June 30, 2013**	**Additions**	**Deletions**	**Transfers**	**Balance at June 30, 2014**
Land	$ 23,809	$ 252	$ -	$ -	$ 24,061
Buildings and leasehold improvements	295,356	109	(32,147)	4,569	267,887
Equipment	200,415	1,920	(47,304)	5,246	160,277
Totals at historical cost	519,580	2,281	(79,451)	9,815	452,225
Less: Accumulated depreciation for					
Buildings and leasehold improvements	(193,130)	(11,319)	30,840	-	(173,609)
Equipment	(163,494)	(11,422)	46,705	-	(128,211)
	162,956	(20,460)	(1,906)	9,815	150,405
Construction-in-progress	8,031	52,336	(701)	(9,815)	49,851
Capital assets, net	$ 170,987	$ 31,876	$ (2,607)	$ -	$ 200,256

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 $2,568,000 and $2,379,000 for the years ended June 30, 2015 and 2014, respectively. Depreciation and amortization expense was approximately $28,069,000 and $23,064,000 for the years ended June 30, 2015 and 2014, respectively.

In 2013, a developer commenced construction on an approximately 201,000 square foot medical office building ("MOB"), which is situated on property that is owned by the Company. During 2015, the Company began leasing approximately 139,000 square feet in the MOB. At June 30, 2014, accounting rules required the Company recognize approximately $29,532,000 in both capital assets, net and other liabilities though the Company neither had title to the building or responsibility for the debt related to the construction of the MOB. In 2015, the Company recognized approximately $14,169,000 of additional costs in capital assets, net and other liabilities. At June 30, 2015, the Company de-recognized the entire capital asset and other liability after finalizing accounting treatment under sale leaseback accounting rules.

7. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2015 and 2014:

(in thousands of dollars)	**2015**	**2014**
Notes Payable		
2011 Shands Note Payable, final maturity October 2030	$ 35,777	$ 37,341
Series 2015A, Revolving Line of Credit, matures March 2020, unless extended	20,000	-
Healthcare Facilities Revenue Bonds		
Series 2015, UF Health Project, final maturity June 2025	20,000	-
Series 2013A, final maturity February 2033	64,240	64,240
Series 2013B, final maturity February 2029	56,540	59,405
	196,557	160,986
Less: Net unamortized bond discount	(703)	(659)
Total long-term debt	195,854	160,327
Less: Current portion	(6,249)	(4,429)
Long-term portion	$ 189,605	$ 155,898

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

(in thousands of dollars)	**Balance at June 30, 2014**	**Additions**	**Reductions**	**Balance at June 30, 2015**	**Amounts Due Within One Year**
Notes Payable					
2011 Shands Note Payable, final maturity October 2030	$ 37,341	$ -	$ (1,564)	$ 35,777	$ 1,636
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	-	20,000	-	20,000	1,608
Series 2013A, final maturity February 2033	64,240	-	-	64,240	-
Series 2013B, final maturity February 2029	59,405	-	(2,865)	56,540	3,005
Total long-term debt	$ 160,986	$ 40,000	$ (4,429)	$ 196,557	$ 6,249

(in thousands of dollars)	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014	Amounts Due Within One Year
Notes Payable					
2011 Shands Note Payable, final maturity October 2030	$ 39,916	$ -	$ (2,575)	$ 37,341	$ 1,564
Series 2013, SJMC Taxable Notes final maturity July 2014	100,000	-	(100,000)	-	-
Healthcare Facilities Revenue Bonds					
Series 2013A, final maturity February 2033	-	64,240	-	64,240	-
Series 2013B, final maturity February 2029	-	59,405	-	59,405	2,865
Total long-term debt	$ 139,916	$ 123,645	$(102,575)	$ 160,986	$ 4,429

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	Debt Service Interest
2016	$ 6,249	$ 6,484
2017	8,408	6,338
2018	8,771	6,135
2019	9,175	5,922
2020	29,518	5,579
2021-2025	47,132	24,120
2026-2030	45,721	16,003
2031-2035	41,583	6,227
	$ 196,557	$ 76,808

Cash paid for interest was approximately $6,611,000 and $7,158,000 for the years ended June 30, 2015 and 2014, respectively. Capitalized interest was approximately $477,000 and $416,000 for the years ended June 30, 2015 and 2014, respectively.

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

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 will be used for general corporate purposes and capital expenditures.

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 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 will be 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.

Series 2013 Taxable Notes
In 2013, the Company issued index rate taxable notes ("Series 2013 Notes") to finance various capital improvement projects, refund the outstanding principal of the Series 2005 Bonds and Series 2008 Bonds, escrow funds for an in-substance defeasance of the Series 2004 Bonds and to pay related issuance costs. The Series 2013 Notes were privately held by Bank of America, N.A. and were refunded by the Series 2013 A and B Bonds, as noted above.

Debt Covenants
The Company's Obligated Group is subject to certain restrictive financial covenants. At June 30, 2015, the most restrictive covenants require cash on hand of at least 60 days, a minimum debt service coverage ratio of 1.0 and maximum funded debt to total assets ratio of not more than 0.70. The Company's Obligated Group was in compliance at June 30, 2015.

8. Interest Rate Swaps

On June 30, 2015 and 2014, the Company had the following derivative instruments outstanding, which are recorded in other liabilities in the accompanying consolidated basic statements of net position:

(in thousands) Type	Objective	Company Notional Amount	Counterparty Notional Amount	Effective Date	Maturity Date	Terms	2015 Fair Value	2014 Fair Value
Fixed rate payer interest rate swap	Hedge changes in interest rate	$ 18,250	$ 18,250	1/30/2004	2/1/2021	Receive 67% of USD-LIBOR-BBA, Pay Fixed 3.337%	$ (1,381)	$ (1,790)
Fixed rate payer interest rate swap	Hedge changes in interest rate	20,000	20,000	6/29/2015	6/30/2025	Receive 65% of USD-LIBOR-BBA, Pay Fixed 2.7350%	(348)	-
							$ (1,729)	$ (1,790)

The fair value of the nonhedged $18,250,000 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 $20,000,000 interest rate swap is also recorded in deferred outflows of resources in the accompanying consolidated basic statements of net position and is estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due.

Credit Risk
The Company has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2015 and 2014, the credit ratings for the swap counterparty Merrill Lynch Capital Services, Inc. is A/Baa1/A- and A/Baa2/A-, respectively. The credit rating for the swap counterparty Compass Bank is BBB+/A3/BBB at June 30, 2015.

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.

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 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. In March 2015, the Company deposited $1,600,000 as collateral, which remains on deposit at June 30, 2015.

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. During fiscal years 2015 and 2014, 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 $6,809,000 and $6,456,000 for the years ended June 30, 2015 and 2014, respectively.

Defined Benefit Pension Plan

Plan Description
The Company participates in the Shands HealthCare Pension Plan (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 percent 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, 2014, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2013	
Active	13
Retired	206
Terminated vested	515
	734

Contributions

The Plan's funding policy is to make contributions to meet the minimum funding requirements of Internal Revenue Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, the Company may contribute an amount above the required contribution. The Company's contributions of approximately $1,408,000 and $2,439,000 for the years ended June 30, 2015 and 2014, respectively, meet the minimum funding requirements of ERISA.

Net Pension Liability

The Company's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013.

The total pension liability in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.5%
Investment Rate of Return	7.25%, net of pension plan investment expense, including inflation
Salary increase	NA

Mortality rates were based upon the RP-2000 mortality tables projected with mortality improvements to the valuation year plus an additional 7 years for annuitants and an additional 15 years for non-annuitants based on Scale AA.

The actuarial assumptions used in the July 1, 2013 valuation related to retirement and termination rates were based on the results of an actual experience study for the period July 1, 2005 through June 30, 2009.

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%	5.00%
International equity	26.0%	5.20%
Core fixed income	12.5%	1.85%
Long duration fixed income	10.0%	2.45%
Long credit fixed income	10.0%	2.95%
High yield fixed income	8.0%	2.90%
Private equity	7.5%	8.15%
Total	100%	

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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, 2014	$ 71,770	$ 66,080	$ 5,690
Changes for the year:			
Service cost	-	-	-
Interest	4,940	-	4,940
Difference between expected			-
and actual experience	44	-	44
Employer contributions	-	2,439	(2,439)
Net investment income	-	11,156	(11,156)
Benefit payments	(6,050)	(6,050)	-
Administrative expense	-	(519)	519
Other changes	128	-	128
Net changes	(938)	7,026	(7,964)
Balances at June 30, 2015	$ 70,832	$ 73,106	$ (2,274)

Mortality Assumption Change

The Company plans to implement during fiscal year 2016 the RP2014 mortality rates published in 2014 by the Society of Actuaries with future mortality improvement that follows the Mercer Modified MP2014 mortality improvement scale. The increase in the net pension liability related to the mortality assumption change is estimated to be approximately $4,600,000.

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

The following presents the Company's net pension liability (asset) calculated using the discount rate of 7.25%, as well as the net pension liability (asset) using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%):

(in thousands of dollars)	**1% Decrease (6.25%)**	**Current Discount Rate (7.25%)**	**1% Increase (8.25%)**
Net pension liability (asset)	$ 3,705	$ (2,274)	$ (7,449)

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

The Company recognized pension (benefit) expense of approximately ($692,000) and $3,342,000 for the years ended June 30, 2015 and 2014, respectively. At June 30, 2015, 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	$ -	$ 232
Changes of assumptions	1,155	-
Net differenced between projected and actual earnings on pension plan investments	-	7,190
Contributions made during the year ended June 30, 2015 not yet recognized in net fiduciary position	1,408	-
Total	$ 2,563	$ 7,422

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	
2016	$ (1,417)
2017	(1,623)
2018	(1,950)
2019	(1,276)
2020	-
Thereafter	-

Payable to the Defined Benefit Pension Plan

As of June 30, 2015 and 2014 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 40 retired employees. The actuarially determined cost for providing benefits to retirees and current employees during fiscal years 2015 and 2014 was approximately $736,000 and $708,000, respectively. SJMC made approximately $329,000 and $316,000 of actual payments (contributions) during fiscal years 2015 and 2014, respectively.

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, 2015:

(in thousands of dollars)

Years Ending	
2016	$ 13,666
2017	11,415
2018	10,760
2019	10,331
2020	9,750
Thereafter	73,906
Total minimum lease payments	$ 129,828

Rent expense related to operating leases for the years ended June 30, 2015 and 2014 was approximately $11,415,000 and $9,633,000, respectively.

Total gross assets under capital leases included in capital assets were approximately $18,009,000 and $11,830,000 at June 30, 2015 and 2014, respectively. Accumulated amortization on capital leases at June 30, 2015 and 2014 was approximately $8,280,000 and $5,712,000, respectively.

Future capital lease payments are as follows:

(in thousands of dollars)

Years Ending	
2016	$ 3,458
2017	2,730
2018	1,081
2019	994
2020	994
Thereafter	1,656
Total minimum lease payments	10,913
Less: Amount representing interest	(826)
Present value of net minimum lease payments	$ 10,087

Construction and Other Commitments

The Company has contracts for the construction and remodeling of facilities and for the purchase and maintenance of computer application software for its core operation systems. As of June 30, 2015, the remaining commitment relating to these contracts was approximately $253,000.

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, 2015 and 2014 were approximately $26,105,000 and $24,979,000, 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, 2015 and 2014 were approximately $2,026,000 and $1,317,000, respectively.

Litigation

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

Other Industry Risks

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. There have also been numerous lawsuits filed against nonprofit hospitals related to charity care. These lawsuits allege various hospital practices related to the uninsured, including, among other things, charging uninsured patients more than what insurers would pay for the same services, rapidly rising prices, and aggressive collection policies.

Management believes that the Company is in compliance with current laws and regulations and that the Company's ultimate exposure from any such matters would not have a material effect on the Company's consolidated basic financial statements.

12. Transactions with Related Parties

As of June 30, 2015 and 2014, 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, 2015 and 2014, the outstanding amount of the Industrial Revenue Bonds is $3,200,000 and $3,700,000, respectively. 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 $7,059,000 and $4,430,000 for the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, the Company owed Shands approximately $564,000 and $512,000, respectively.

The Company, Shands and other related parties collaborated on the implementation of EPIC, a new medical records and patient accounting system ("System"). Shands led this effort and paid for the System and related implementation costs and then allocated portions of those costs to each participating related party. At June 30, 2015 and 2014, the Company owed Shands approximately $6,149,000 and $11,152,000, respectively.

SJMC receives contracted services at cost from UF for support of the clinical and research activities of the College of Medicine, maintenance, utilities, telephone communication and various other services. Expenses related to these services were approximately $67,216,000 and $66,210,000 for the years ended June 30, 2015 and 2014, respectively, of which approximately $23,055,000 and $23,120,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, payables related to this arrangement amounted to approximately $657,000 and $1,669,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

At June 30, 2015 and 2014, the Company has a note payable ("2011 Shands Note Payable") of approximately $35,777,000 and $37,341,000, 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. The current portion of the note payable of approximately $1,636,000 and $1,564,000 is included within long-term debt, current portion, and the long-term portion of the note payable of approximately $34,141,000 and $35,777,000 is included within long-term debt, noncurrent portion, at June 30, 2015 and 2014, respectively, in the accompanying consolidated basic statements of net position.

13. Concentrations of Credit Risk

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

	2015	2014
Medicare	26%	25%
Medicaid	28%	31%
Managed Care	20%	22%
Other third-party payors	26%	22%
	100%	100%

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 October 8, 2015, the date the audited consolidated basic financial statements were issued, and has concluded that there are no such events that require adjustment to the consolidated basic financial statements.

At June 30, 2015 and 2014, the Company had a note payable (“2011 Shands Note Payable”) of approximately $35,777,000 and $37,341,000, respectively, due to Shands. The original note amount was approximately $42,276,000 to be paid in quarterly installments of $804,620 including interest of 4.5%, maturing on October 1, 2030. The quarterly payment due July 1, 2015 was made, leaving a net balance due of approximately $35,375,000. On September 28, 2015, after assessment of each organization’s financial position, the Company’s Board of Directors agreed to accept a preliminary offer from the Shands Board of Directors to a reduction of approximately $17,688,000 in the note payable due to Shands, effective July 1, 2015, subject to final Shands Board of Directors approval, which was received on September 30, 2015. Beginning with the payment due on October 1, 2015, quarterly installments of principal and interest will be $402,310, with the interest rate and maturity date remaining unchanged.

Previously, the Company was allowed to pay for its share of EPIC implementation costs over time on an interest-free basis. The amount due to Shands was approximately $6,149,000 as of June 30, 2015 and is included in accounts payable and accrued expenses in the consolidated basic statements of net position. 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. The impact of this action will be to increase accounts payable and decrease net position for interest incurred from inception of the arrangement through June 30, 2015 by approximately $1,584,000, when recorded in the Company’s September 30, 2015 financial results.

The net impact of the above actions will be to increase the Company’s net position by approximately $16,104,000 as of September 30, 2015.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)
Years Ended June 30, 2015 and 2014

(in thousands of dollars)

	2015	2014
Total pension liability		
Service cost	$ -	$ 30
Interest	4,940	4,925
Changes of benefit terms	-	-
Differences between expected and actual experience	44	(519)
Changes of assumptions	128	2,390
Benefit payments	(6,050)	(5,986)
Net change in total pension liability	(938)	840
Total pension liability – beginning	71,769	70,929
Total pension liability – ending (a)	$ 70,831	$ 71,769
Plan fiduciary net position		
Employer contributions	$ 2,439	$ 3,316
Net investment income	11,156	7,975
Benefit payments	(6,050)	(5,986)
Administrative expense	(519)	(452)
Net change in fiduciary net position	7,026	4,853
Plan fiduciary net position – beginning	66,079	61,226
Plan fiduciary net position – ending (b)	$ 73,105	$ 66,079
Net pension (asset) liability – ending (a)-(b)	$ (2,274)	$ 5,690
Plan fiduciary net position as a percentage of total pension liability	103.21%	92.07%
Covered employee payroll	$ 370	$ 695
Net pension (asset) liability as a percentage of covered - employee payroll	(614.95%)	818.34%

Notes to Schedule

Benefit changes in 2014:

Benefit accruals were frozen effective July 1, 2013.

Changes of assumptions 2015:

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

Changes of assumptions 2014:

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Employer Contributions (Unaudited)
June 30, 2006 Through June 30, 2015

(in thousands of dollars)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ -	$ -	$ 1,906	$ 6,729	$ 9,397	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	1,408	2,439	3,316	7,200	12,823	2,557	528	633	1,213	1,047
Contribution deficiency (excess)	$ (1,408)	$ (2,439)	$ (1,410)	$ (471)	$ (3,426)	$ (2,557)	$ (528)	$ (633)	$ (1,213)	$ (1,047)
Covered employee payroll	$ 370	$ 695	$ 831	$ 1,221	$ 1,300	$ 1,693	$ 2,135	$ 2,255	$ 2,871	$ 2,781
Contributions as a percentage of covered employee payroll	380.63%	350.75%	399.10%	589.81%	986.58%	151.07%	24.70%	28.07%	42.24%	37.65%

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, 2014
Actuarial cost method	Projected Unit Credit
Asset valuation method	Market value including receivables
Inflation	2.50%
Investment rate of return	7.25% 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-2000 Healthy Annuitant Mortality Tables projected with mortality improvement to the valuation year plus 7 and 15 years based on Scale AA.

Other information:

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2015

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group (1)	Other	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	$ 81,211	$ 4,360	$ -	$ 85,571
Short-term investments	28,009	-	-	28,009
Patient accounts receivable, net	87,653	-	-	87,653
Due from city and state agencies	3,378	-	-	3,378
Inventories	13,820	-	-	13,820
Prepaid expenses and other current assets	47,296	10,335	(50,270)	7,361
Assets whose use is restricted, current portion	1,600	-	-	1,600
Total current assets	262,967	14,695	(50,270)	227,392
Assets whose use is restricted	25,927	-	-	25,927
Capital assets, net	180,518	22,818	-	203,336
Other assets	13,334	4,033	-	17,367
Total assets	482,746	41,546	(50,270)	474,022
Deferred outflows of resources				
Accumulated decrease in fair value of hedging derivatives	348	-	-	348
Deferred pension assumption loss	1,155	-	-	1,155
Deferred pension contributions	1,408	-	-	1,408
Total deferred outflows of resources	2,911	-	-	2,911
Liabilities				
Current liabilities				
Long-term debt, current portion	6,249	-	-	6,249
Capital lease obligations, current portion	3,179	-	-	3,179
Accounts payable and accrued expenses	56,803	41,422	(50,270)	47,955
Accrued salaries and leave payable	21,679	-	-	21,679
Estimated third-party payor settlements	17,545	-	-	17,545
Total current liabilities	105,455	41,422	(50,270)	96,607
Long-term liabilities				
Long-term debt, noncurrent portion	189,605	-	-	189,605
Capital lease obligations, noncurrent portion	6,908	-	-	6,908
Other liabilities	7,172	6	-	7,178
Total long-term liabilities	203,685	6	-	203,691
Total liabilities	309,140	41,428	(50,270)	300,298
Deferred inflows of resources				
Deferred pension asset gains	7,422	-	-	7,422
Commitments and contingencies				
Net position				
Net investment in capital assets	29,651	22,818	-	52,469
Restricted				
Expendable	3,365	728	-	4,093
Unrestricted	136,079	(23,428)	-	112,651
Total net position	$ 169,095	$ 118	$ -	$ 169,213

(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, 2014

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group (1)	Other	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	$ 42,342	$ 4,108	$ -	$ 46,450
Short-term investments	27,760	-	-	27,760
Patient accounts receivable, net	77,909	-	-	77,909
Due from city and state agencies	15,781	-	-	15,781
Inventories	11,508	-	-	11,508
Prepaid expenses and other current assets	48,053	9,421	(46,733)	10,741
Total current assets	223,353	13,529	(46,733)	190,149
Assets whose use is restricted, less current portion	37,276	-	-	37,276
Capital assets, net	149,152	51,104	-	200,256
Other assets	12,945	4,033	-	16,978
Total assets	422,726	68,666	(46,733)	444,659
Deferred outflows of resources				
Deferred pension assumption loss	1,726	-	-	1,726
Deferred pension contributions	2,439	-	-	2,439
Total deferred outflows of resources	4,165	-	-	4,165
Liabilities				
Current liabilities				
Long-term debt, current portion	4,429	-	-	4,429
Capital lease obligations, current portion	2,154	-	-	2,154
Accounts payable and accrued expenses	54,271	38,994	(46,733)	46,532
Accrued salaries and leave payable	23,835	-	-	23,835
Estimated third-party payor settlements	13,003	-	-	13,003
Total current liabilities	97,692	38,994	(46,733)	89,953
Long-term liabilities				
Long-term debt, noncurrent portion	155,898	-	-	155,898
Capital lease obligations, noncurrent portion	4,081	-	-	4,081
Other liabilities	17,496	29,532	-	47,028
Total long-term liabilities	177,475	29,532	-	207,007
Total liabilities	275,167	68,526	(46,733)	296,960
Deferred inflows of resources				
Deferred pension asset gains	3,159	-	-	3,159
Commitments and contingencies				
Net position				
Net investment in capital assets	19,271	21,572	-	40,843
Restricted				
Expendable	3,355	728	-	4,083
Unrestricted	125,939	(22,160)	-	103,779
Total net position, as restated (2)	$ 148,565	$ 140	$ -	$ 148,705

(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.

(2) The Company adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, as of July 1, 2014 and, as required, adjusted net position as of July 1, 2013 and restated the consolidated basic financial statement of net position as of June 30, 2014.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015

(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 $79,654	$ 577,554	$ -	$ -	$ 577,554
Other operating revenue	10,342	2,480	(299)	12,523
Total operating revenues	587,896	2,480	(299)	590,077
Operating expenses				
Salaries and benefits	262,465	356	-	262,821
Supplies and services	267,388	(12)	(299)	267,077
Depreciation and amortization	26,387	1,682	-	28,069
Total operating expenses	556,240	2,026	(299)	557,967
Operating income	31,656	454	-	32,110
Nonoperating revenues (expenses)				
Interest	(6,631)	(638)	-	(7,269)
Other nonoperating gains	409	-	-	409
Net investment gain, including change in fair value	18,030	1	-	18,031
Gain on disposal of capital assets, net	111	161	-	272
Total nonoperating revenue (expenses), net	11,919	(476)	-	11,443
Excess (deficit) of revenues over expenses before transfers and capital contributions	43,575	(22)	-	43,553
Transfers and expenditures in support of the University of Florida and its medical programs	(23,055)	-	-	(23,055)
Capital contributions, net	10	-	-	10
Increase (decrease) in net position	20,530	(22)	-	20,508
Net position				
Beginning of year, as restated (2)	148,565	140	-	148,705
End of year	$ 169,095	$ 118	$ -	$ 169,213

(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.

(2) The Company adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, as of July 1, 2014 and, as required, adjusted net position as of July 1, 2013 and restated the consolidated basic financial statement of net position as of June 30, 2014.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2014

(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 $79,902	$ 518,542	$ -	$ -	$ 518,542
Other operating revenue	20,228	2,596	(299)	22,525
Total operating revenues	538,770	2,596	(299)	541,067
Operating expenses				
Salaries and benefits	241,975	445	-	242,420
Supplies and services	240,843	2,151	(299)	242,695
Depreciation and amortization	23,002	62	-	23,064
Total operating expenses	505,820	2,658	(299)	508,179
Operating income (loss)	32,950	(62)	-	32,888
Nonoperating revenues (expenses)				
Interest	(7,586)	-	-	(7,586)
Other nonoperating gains	335	-	-	335
Net investment gain, including change in fair value	4,210	-	-	4,210
Loss on disposal of capital assets, net	(1,692)	(11)	-	(1,703)
Total nonoperating expenses, net	(4,733)	(11)	-	(4,744)
Excess (deficit) of revenues over expenses before transfers and capital contributions	28,217	(73)	-	28,144
Transfers and expenditures in support of the University of Florida and its medical programs	(23,120)	-	-	(23,120)
Capital contributions, net	196	-	-	196
Increase (decrease) in net position	5,293	(73)	-	5,220
Net position				
Beginning of year, as restated (2)	143,272	213	-	143,485
End of year, as restated (2)	$ 148,565	$ 140	$ -	$ 148,705

(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.

(2) The Company adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, as of July 1, 2014 and, as required, adjusted net position as of July 1, 2013 and restated the consolidated basic financial statement of net position as of June 30, 2014.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA#	Pass-Through Entity Identification Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Pass-Through the University of Florida:			
Poison Control Stabilization and Enhancement Grant	93.253	UF103011	$ 358,773
Subtotal 93.253			358,773
Pass-Through the Northeast Florida Healthy Start Coalition, Inc.:			
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	93.505	N/A	153,450
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	93.505	N/A	51,150
Subtotal 93.505			204,600
Total U.S. Department of Health and Human Services			563,373
Total Expenditures of Federal Awards			$ 563,373

The accompanying note is an integral part of this Schedule of Expenditures of Federal Awards.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of State Financial Assistance
Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program or Cluster Title	CSFA#	Contract Identification Number	Award Amount	Grant Period	State Expenditures
State of Florida, Department of Health:					
Trauma Center Financial Support	64.075	TRA-17	N/A	7/1/14-6/30/15	$ 445,408
			-		445,408
Pass-Through the Northeast Florida Healthy Start Coalition, Inc.:					
Closing the Gap - Maternal and Infant Mortality	64.056	N/A	641,023	7/1/14-6/30/15	641,023
			641,023		641,023
Total State of Florida, Department of Health			641,023		1,086,431
State of Florida, Agency for Healthcare Administration:					
Poison Information Network	64.014	N/A	1,039,500	7/1/14-6/30/15	1,039,500
Poison Information Network	64.014	N/A	161,602	7/1/14-6/30/15	161,602
			1,201,102		1,201,102
Pass-Through the University of Florida:					
Poison Information Network	64.014	UF10310	386,685	7/1/14-6/30/15	386,685
Poison Information Network	64.014	UF10309	47,517	7/1/14-6/30/15	47,517
			434,202		434,202
Total State of Florida, Agency for Healthcare Administration			1,635,304		1,635,304
Total Expenditures of State Financial Assistance			$ 2,276,327		$ 2,721,735

The accompanying note is an integral part of this Schedule of State Financial Assistance.

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance (the "Schedules") include the federal and state grant activity of Shands Jacksonville HealthCare, Inc. and Subsidiaries (the "Company"), and are presented on the accrual basis of accounting.

The information on these Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Because the Schedules present only a selected portion of the operations of the Company, they are not intended to and do not present the financial position, changes in net position, or cash flows of the Company. The purpose of the Schedules is to present a summary of those activities of the Company for the year ended June 30, 2015, which have been financed by the federal and state governments. For purposes of the Schedules, federal awards and state financial assistance include any assistance provided by a federal or state agency directly or indirectly in the form of grants and contracts.

Direct and indirect costs are charged to awards in accordance with cost principles contained in the Department of Health and Human Services, Office of the Assistant Secretary Comptroller ("OASC"), OASC-3, *A Guide for Hospitals*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated basic financial statements of Shands Jacksonville Healthcare, Inc. and Subsidiaries (the "Company") as of and for the year ended June 30, 2015, and the related notes to the consolidated basic financial statements, which comprise the Company's consolidated basic financial statements and have issued our report thereon dated October 8, 2015.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

PricewaterhouseCoopers LLP

October 8, 2015

Independent Certified Public Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Financial Assistance Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*

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

Report on Compliance for Each Major Federal Program and State Financial Assistance Program

We have audited Shands Jacksonville Healthcare, Inc. and Subsidiaries' (the "Company") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and described in the *Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on each of the Company's major federal or state programs for the year ended June 30, 2015. The Company's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Independent Certified Public Accountants' Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations;* and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General,* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

December 21, 2015

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Noncompliance material to the financial statements noted?	____ Yes	__X__ No

Federal Awards and State Financial Assistance

Internal control over major programs and state assistance:		
Material weaknesses identified?	____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Type of auditor's report issued on compliance for major programs and state assistance:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 or Chapter 10.550, *Rules of the Auditor General*?	____ Yes	__X__ No

Identification of major federal programs and state assistance:

Federal Awards:

CFDA Number	Name of Federal Program or Cluster
93.505	Affordable Care Act – Maternal, Infant, and Early Childhood Home Visiting Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ Yes	_____ No

State Financial Assistance:

CSFA Number	Name of State Financial Assistance Project
64.014	Poison Information Network

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk pursuant to the Single Audit Act of the State of Florida?	__X__ Yes	_____ No

Section II: Financial Statement Findings

None noted.

Section III: Major Federal Awards Programs and State Financial Assistance Projects Findings and Questioned Costs

None noted.

Finding 2014-001: Estimated Third-Party Payor Settlements - Significant Deficiency

Testing was performed over activity related to estimated third-party payor settlements during the year ended June 30, 2014. We recorded a duplicate journal entry that resulted in an understatement of the estimated net third-party payor settlement balance of approximately $5.1 million. Within the original entry, we used an inaccurate prospective inflation factor when calculating settlement of a Medicaid program, which resulted in additional net understatement of the estimated third-party settlement balance of approximately $1.2 million. When aggregated, these two adjustments indicate a significant deficiency in the calculation of estimated third-party payor settlements.

PwC recommended that we implement a formal review process that includes agreeing key assumptions used in the calculation of estimated third-party payor settlements to supporting documentation as well as a formal review of journal entries.

Status

The identified control failure noted for the year ended June 30, 2014 was remediated during the year ended June 30, 2015. We established a formal review process whereby the Associate Vice President of Finance reviews key assumptions used in the calculation of third-party payor settlements and approves any related journal entries.