

# **Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**

**Consolidated Basic Financial Statements,  
Required Supplementary Information and  
Supplemental Consolidating Information  
June 30, 2012 and 2011**

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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June 30, 2012 and 2011

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# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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This section of the Shands Teaching Hospital and Clinics, Inc. and Subsidiaries' ("Shands") annual financial report presents Shands' analysis of its financial performance as of June 30, 2012 and 2011, and for the fiscal years then ended. Please read this analysis in conjunction with the consolidated basic financial statements, which follow this section.

#### Introduction

Shands includes the following:

**Shands UF** is a major tertiary care teaching institution licensed to operate an 852-bed teaching hospital which provides clinical settings for medical education programs at the University of Florida.

**Shands Vista** is an inpatient psychiatric and substance abuse facility licensed to operate 81 beds, of which 61 are psychiatric and 20 are substance abuse.

**Shands Rehab Hospital** is a 40-bed inpatient rehabilitation hospital located on the same campus as Shands Vista.

**Shands HomeCare** is a hospital-based home care agency providing home care services to the citizens of north central Florida.

**Property Management** leases properties including a condominium medical office building and nonmedical buildings.

**Elder Care of Alachua County, Inc.** provides social and health care support to the elderly in Alachua County.

**Southeastern HealthCare Foundation, Inc.** provides charitable aid to the University of Florida and to Shands and owns and leases various rental properties in Florida.

**First Coast Advantage Central, LLC** is a provider service network ("PSN") established to administer Medicaid in Alachua and certain contiguous counties.

On July 1, 2010, Shands sold the operating assets and certain liabilities of three rural community hospitals (Shands Lake Shore, Shands Starke, and Shands Live Oak) to Health Management Associates, LLC ("HMA"). Shands then entered into a partnership agreement with HMA for a 40% minority interest in **Lakeshore HMA, LLC, Starke HMA, LLC, and Live Oak HMA, LLC**. HMA manages the operations of the three facilities. Shands also has an equal partnership interest with Solantic of Orlando, LLC for a walk-in urgent care center. Solantic manages the operations of the facility.

This section of Shands' consolidated basic financial statements (unaudited) presents analysis of the financial condition, the results of operations and cash flows of Shands as of June 30, 2012 and 2011 and for the years then ended.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### 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 Shands. 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.

#### June 30, 2012

#### Statements of Net Assets

The consolidated basic statements of net assets presents the financial position of Shands as of June 30, 2012 and 2011 and includes all assets and liabilities of Shands. Shands' net assets, or the difference between total assets and total liabilities, are one indicator of the current financial condition of Shands. Changes in net assets are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. Assets and liabilities 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 Shands' consolidated basic statements of net assets at June 30, 2012 and 2011 is presented below:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents and short-term investments	\$ 152,738	\$ 126,736
Other current assets	230,766	183,965
Capital assets, net	721,169	732,468
Other assets	452,402	399,410
Total assets	<u>\$ 1,557,075</u>	<u>\$ 1,442,579</u>
Current liabilities	\$ 186,261	\$ 194,662
Long-term liabilities	555,492	516,946
Total liabilities	<u>741,753</u>	<u>711,608</u>
Net assets		
Invested in capital assets, net of related debt	234,390	233,936
Restricted		
Nonexpendable	97	97
Expendable	8,750	5,684
Unrestricted	<u>572,085</u>	<u>491,254</u>
Total net assets	<u>815,322</u>	<u>730,971</u>
Total liabilities and net assets	<u>\$ 1,557,075</u>	<u>\$ 1,442,579</u>

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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Cash and cash equivalents and short-term investments increased by \$26.0 million. See "Statements of Cash Flows" section below for further information regarding cash activity. Other current assets increased by \$46.8 million due primarily to an increase in net patient accounts receivable as a result of increased patient service volumes. Capital assets, net decreased by \$11.3 million and included new acquisitions of approximately \$59.5 million. Further changes in the level of capital assets were primarily due to the timing of acquisition of capital assets, as well as reclassification of approximately \$20.0 million in prior year costs associated with the electronic medical record project reclassified to "prepaid expenses and other current assets" and "other assets" categories. In the prior year, the reimbursable portion of the electronic medical record project was not finalized and thereby was reflected in construction-in-progress. Other assets increased by \$53.0 million due primarily to: \$23.2 million in increased collateral funding requirements associated with the bond swaps; \$13.2 million in increased funding of the defined-benefit pension plan; \$9.2 million increase in the electronic medical record project receivable referred to previously; and \$7.4 million increase in other receivables.

Current liabilities decreased by \$8.4 million due primarily to decreases in salaries/leave payable and also third-party settlement liabilities offset by increases in accounts payable and accrued expenses. Long-term liabilities increased by \$38.5 million primarily due to changes in the fair value of the bond swaps, as well as the addition of \$10.0 million in new fixed-rate debt.

Total net assets increased by \$84.4 million due primarily to financial results during the year.

#### Statements of Revenues, Expenses and Changes in Net Assets

The following table presents Shands' condensed consolidated basic statements of revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Net patient service revenue	\$ 1,060,568	\$ 960,344
Other operating revenue	25,598	17,383
Total operating revenues	<u>1,086,166</u>	<u>977,727</u>
Operating expenses	<u>971,843</u>	<u>938,561</u>
Operating income	114,323	39,166
Nonoperating revenues, net	<u>6,093</u>	<u>35,832</u>
Excess of revenues over expenses	120,416	74,998
Other changes in net assets		
Capital contributions	1,612	674
Expenditures in support of the University of Florida and its medical programs	(40,744)	(37,675)
Change in accounting treatment of effective derivative instruments and change in fair value of hedging derivative instruments	-	39,649
Shands Jacksonville note receivable	-	42,276
Other changes in net assets	<u>3,067</u>	<u>1,714</u>
Increase in net assets	<u>\$ 84,351</u>	<u>\$ 121,636</u>

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2012 and 2011**

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*Patient Volumes*

Compared to the prior year, inpatient and outpatient volumes increased. The following tables reflect the associated volumes of each facility on a comparative basis to the prior year.

	2012	2011	Net Change	% Change
<b>In-Patient Admissions</b>				
Shands UF	37,656	36,150	1,506	4.2%
Shands Vista	3,146	3,009	137	4.6%
Shands Rehab Hospital	873	808	65	8.0%
Total	<u>41,675</u>	<u>39,967</u>	<u>1,708</u>	<u>4.3%</u>

	2012	2011	Net Change	% Change
<b>Out-Patient Visits</b>				
Shands UF	713,964	707,271	6,693	0.9%
Shands Vista	24,605	20,930	3,675	17.6%
Shands Rehab Hospital	1,026	1,343	(317)	-23.6%
Total	<u>739,595</u>	<u>729,544</u>	<u>10,051</u>	<u>1.4%</u>

Inpatient admissions exceeded the prior year by 4.3% due primarily to increased medical and surgical volumes. Outpatient visits exceeded the prior year by 1.4% primarily due to increased emergency room and trauma visits.

*Operating Revenues*

Patient service revenue, net of allowances for contractual discounts, charity care and provision for bad debt increased \$100.2 million, or 10.4% over the prior year. The primary factor for the increase was increased patient volumes, increased patient acuity, and improved utilization management which resulted in improved overall net reimbursement. Other operating revenues increased \$8.2 million, or 47.3%, due to funding recognized from the Medicare and Medicaid programs toward installation of the electronic medical record system. Shands earned the funding by meeting certain measurable benchmarks established by the two programs. Additional funding is available in future years based upon successfully achieving additional requirements.

*Operating Expenses*

Operating expenses increased \$33.3 million, or 3.5%. The primary factor for the increase was the increase in patient volumes. Operating expenses increased in the areas of salary and benefits expense, as well as supplies expense. On a volume and patient acuity adjusted basis, operating expenses were favorable to the prior year.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### *Nonoperating Revenues, net*

Nonoperating revenues, net decreased by \$29.7 million, or 83.0%. Investment income, net was lower by \$25.4 million due primarily to lower market conditions impacting the investment portfolio. State appropriations and interest expense are included in nonoperating revenues, net, in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. State appropriations were lower by \$3.5 million. Interest expense was slightly lower by \$0.9 million. Gains in the value of derivative instruments increased \$8.3 million. Disposal of property and equipment activity decreased by \$3.5 million. Other non-operating revenues increased \$1.8 million.

#### **Statements of Cash Flows**

The Statements of Cash Flows provide additional information in regards to Shands' financial results by reporting the major sources and uses of cash. Cash and cash equivalents increased by \$6.3 million. Short-term investments increased by \$19.7 million.

Cash activities included capital asset acquisitions of \$59.5 million. Payments of additional collateral related to bond swaps have totaled \$23.2 million. Shands also funded the employee pension plan by \$13.2 million in excess of pension expense. Cash in-flows have been primarily as a result of operational activity.

#### **Debt Outstanding**

As of June 30, 2012, Shands had approximately \$487.5 million in debt outstanding compared to approximately \$498.7 million the previous year. Long-term debt is comprised of bond issues, a bank note, and installment debt, described in more detail in Note 6 to the consolidated basic financial statements. Shands utilizes interest rate swaps in order to synthetically convert certain variable rate bonds to fixed rate bonds. Including the effect of the interest rate swaps, approximately 71% of Shands' bonds outstanding are fixed while 29% are variable. The Series 1996A Bonds are fixed rate bonds insured by MBIA. The Series 2007A and B Bonds, Series 2008C Bonds, and \$50 million of the Series 2008A Bonds are variable rate bonds with fixed rate payor interest rate swaps which synthetically converts them to fixed rate bonds. The Series 2008B Bonds, Series 2010A Bonds, and \$25 million of the Series 2008A Bonds are variable rate bonds. Shands entered into a fixed rate taxable loan for \$10 million to finance a property purchase, renovations, and equipment. Shands entered into installment debt agreements for \$8.4 million to finance the costs of implementation of an EMR system, as well as an upgrade to its financial and human resources information services system.

#### **Credit Ratings**

Shands has received underlying credit ratings of A2 from Moody's Investor Services on all of its debt with the exception of its 2008A and 2008B Bonds. In September, 2011 Moody's downgraded the 2008A and 2008B Bonds, which is a direct-pay letter of credit with Bank of America, from Aa2 to A1. The A2 Moody's rating was affirmed on all other debt in December, 2011 with an outlook of "Stable".

Shands has received underlying credit ratings of A from Standard & Poor's on all of its debt with an outlook of "Stable". The Standard & Poor's rating was affirmed in August 2011.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2012 and 2011**

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**June 30, 2011**

**Statement of Net Assets**

The consolidated basic statement of net assets presents the financial position of Shands as of June 30, 2011 and includes all assets and liabilities of Shands. Shands' net assets, or the difference between total assets and total liabilities, are one indicator of the current financial condition of Shands. Changes in net assets are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. Assets and liabilities 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 Shands' consolidated basic statement of net assets at June 30, 2011 is presented below:

*(in thousands of dollars)*

Cash and cash equivalents and short-term investments	\$ 126,736
Other current assets	183,965
Capital assets, net	732,468
Other assets	<u>399,410</u>
Total assets	<u>\$ 1,442,579</u>
Current liabilities	\$ 194,662
Long-term liabilities	<u>516,946</u>
Total liabilities	<u>711,608</u>
Net assets	
Invested in capital assets, net of related debt	233,936
Restricted	
Nonexpendable	97
Expendable	5,684
Unrestricted	<u>491,254</u>
Total net assets	<u>730,971</u>
Total liabilities and net assets	<u>\$ 1,442,579</u>

Cash and cash equivalents and short-term investments decreased by approximately \$40.7 million since June 30, 2010. See "Statement of Cash Flows" section below for further information regarding cash activity.

Other current assets decreased by approximately \$44.3 million since June 30, 2010 due primarily to receipt of the proceeds associated with the sale of the operating assets and certain liabilities in the three rural hospitals, Shands at Lake Shore, Shands Starke, and Shands Live Oak to Health Management Associates, Inc. ("HMA") on July 1, 2010. Subsequent to the sale, Shands purchased a 40% interest in the newly formed limited liability companies that now own the rural hospitals. HMA is managing the operations of the three rural hospitals' combined 139 beds.

Capital assets acquired in the fiscal year totaled approximately \$69.9 million, primarily related to the project costs associated with the installation and implementation of an electronic medical record ("EMR") system and the construction of the Pediatric Emergency Room.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2012 and 2011**

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Other assets were primarily affected by the change from FASB to GASB as it related to the accounting treatment of Shands' defined benefit pension plan, resulting in prepaid pension assets to increase approximately \$82 million. Assets whose use is restricted, less current portion, increased by approximately \$36.5 million during fiscal year 2011 as a result of increased funding by the Board of Directors for specific purposes such as: assets held in trust, strategic capital, post-retirement benefits, and other health programs.

Current liabilities decreased by approximately \$13.0 million during fiscal year 2011 due to the conclusion of construction of the Cancer Hospital project which increased vendor payables in 2010 and other timing differences for various vendor payments.

Long-term liabilities were primarily affected by the change from FASB to GASB as it related to the accounting treatment of pension and post-employment benefit liabilities and derivatives. Long-term debt, noncurrent portion, and capital lease obligations, noncurrent portion, decreased approximately \$17.7 million during fiscal year 2011 due to principal payments.

Net assets were primarily affected by the excess of revenues over expenses and the change from FASB to GASB as it related to the accounting treatment of pension and post-employment benefit liabilities, derivatives and other changes.

**Statement of Revenues, Expenses and Changes in Net Assets**

The following table presents Shands' condensed consolidated basic statement of revenues, expenses and changes in net assets for the year ended June 30, 2011:

*(in thousands of dollars)*

Net patient service revenue	\$ 960,344
Other operating revenue	17,383
Total operating revenues	<u>977,727</u>
Operating expenses	<u>938,561</u>
Operating income	39,166
Nonoperating revenues, net	<u>35,832</u>
Excess of revenues over expenses	74,998
Other changes in net assets	
Capital contributions	674
Expenditures in support of the University of Florida and its medical programs	(37,675)
Change in accounting treatment of effective derivative instruments and change in fair value of hedging derivative instruments	39,649
Shands Jacksonville note receivable	42,276
Other changes in net assets	1,714
Increase in net assets	<u>\$ 121,636</u>

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2012 and 2011**

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*Patient Volumes*

Compared to the prior year, inpatient and outpatient volumes decreased primarily as a result of the closure of Shands AGH in November 2009, and the sale of the three rural hospitals to HMA in July 2010. The following tables reflect the associated volumes of each facility on a comparative basis to the prior year.

	2011	2010	Net Change	% Change
<b>In-Patient Admissions</b>				
Shands UF	36,150	34,026	2,124	6.2%
Shands Vista	3,009	2,768	241	8.7%
Shands Rehab Hospital	808	753	55	7.3%
Subtotal	<u>39,967</u>	<u>37,547</u>	<u>2,420</u>	<u>6.4%</u>
Shands AGH	-	1,995	(1,995)	-100.0%
Lake Shore, Starke, and Live Oak	-	5,963	(5,963)	-100.0%
Total	<u>39,967</u>	<u>45,505</u>	<u>(5,538)</u>	<u>-12.2%</u>
	2011	2010	Net Change	% Change
<b>Out-Patient Visits</b>				
Shands UF	707,271	667,399	39,872	6.0%
Shands Vista	20,930	18,487	2,443	13.2%
Shands Rehab Hospital	1,343	1,073	270	25.2%
Subtotal	<u>729,544</u>	<u>686,959</u>	<u>42,585</u>	<u>6.2%</u>
Shands AGH	-	25,152	(25,152)	-100.0%
Lake Shore, Starke, and Live Oak	-	303,786	(303,786)	-100.0%
Total	<u>729,544</u>	<u>1,015,897</u>	<u>(286,353)</u>	<u>-28.2%</u>

In-patient admissions compared to the prior year were lower by 12.2%. Over the same period, the admission levels for Shands UF, Vista and Rehab increased 6.4% compared to their prior year volumes primarily related to the closure of Shands AGH. Out-patient visits compared to the prior year were lower by 28.2%. Over the same period, the out-patient visit levels for Shands UF, Vista and Rehab increased 6.2% compared to their prior year volumes primarily related to the closure of Shands AGH.

*Operating Revenues*

Patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, was approximately \$960.3 million, a decrease of approximately \$56.6 million, or 5.6% from fiscal year 2010. The primary factor for the decrease was the sale of the three rural hospitals in July 2010. Other operating revenues of approximately \$17.4 million were approximately \$1.0 million lower than the prior year primarily related to the closure of Shands AGH.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### *Operating Expenses*

Operating expenses for fiscal year 2011 were approximately \$938.6 million, a decrease of approximately \$53.8 million, or 5.4%, from fiscal year 2010. The primary factor for the decrease was the sale of the three rural hospitals in July 2010 which resulted in a decrease of approximately \$36.2 million in salaries and benefits.

#### *Nonoperating Revenues, net*

Nonoperating revenues, net for fiscal year 2011 were approximately \$35.8 million. State appropriations and interest expense are included in nonoperating revenues, net, in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. State appropriations, net were approximately \$7.5 million. Interest expense was approximately \$16.9 million. Net investment income, including the change in fair value of investments, totaled approximately \$37.5 million. Losses and the change in value of derivative instruments totaled approximately \$0.415 million. Gain on disposal of capital assets totaled approximately \$4.0 million, and other nonoperating revenues totaled approximately \$4.1 million.

#### **Statement of Cash Flows**

The statement of cash flows provides additional information in regards to Shands' financial results by reporting the major sources and uses of cash.

Total cash and cash equivalents and short-term investments decreased in fiscal year 2011 by approximately \$40.7 million. Capital asset acquisitions during the fiscal year totaled approximately \$58.0 million. Payment of principal on long-term debt and capital lease obligations was approximately \$17.7 million. Shands also funded the employee pension plan by approximately \$40.5 million in excess of pension expense. On July 1, 2010, Shands received net cash proceeds of approximately \$21.1 million from HMA from the sale of the operating assets and certain liabilities of the three rural hospitals. Shands and HMA then entered into a joint partnership for the management and operation of the three facilities.

#### **Debt Outstanding**

As of June 30, 2011, Shands had approximately \$498.7 million in debt outstanding compared to approximately \$507.2 million the previous year. Long-term debt is comprised of bond issues and installment debt, described in more detail in Note 6 to the consolidated basic financial statements. Shands utilizes interest rate swaps in order to synthetically convert certain variable rate bonds to fixed rate bonds. Including the effect of the interest rate swaps, approximately 71% of Shands' bonds outstanding are fixed while 29% are variable. The Series 1996A Bonds are fixed rate bonds insured by MBIA. The Series 2007A and B Bonds, Series 2008C Bonds, and \$50 million of the Series 2008A Bonds are variable rate bonds with fixed rate payor interest rate swaps which synthetically converts them to fixed rate bonds. The Series 2008B Bonds, Series 2010A Bonds, and \$25 million of the Series 2008A Bonds are variable rate bonds. Shands entered into installment debt agreements to finance the costs of implementation of an EMR system, as well as an upgrade to its financial and human resources information services system.

# **Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**

## **Management's Discussion and Analysis (Unaudited)**

### **June 30, 2012 and 2011**

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#### **Capital Assets**

At June 30, 2011, Shands had approximately \$233.9 million invested in net capital assets. A breakdown of these assets can be found in Note 5 to the consolidated basic financial statements. This represents a decrease of approximately \$8.0 million from the previous year. Shands expects to make total capital expenditures of approximately \$81.9 million in fiscal year 2012 primarily on expenditures for the EMR project, facility upgrades, information systems and patient care equipment. These capital purchases are expected to be funded directly from operations.

#### **Credit Ratings**

Shands has received underlying credit ratings of A2 and A from Moody's Investor Services and Standard & Poor's, respectively. Both firms have assigned an outlook of "Stable". The Moody's rating was affirmed in June 2010 and the Standard & Poor's rating was affirmed in August 2011.



## Report of Independent Certified Public Accountants

To the Board of Directors of  
Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

In our opinion, the accompanying consolidated basic statements of net assets and the related consolidated basic statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries ("Shands") as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Shands' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated basic financial statements, Shands adopted Governmental Accounting Standards Board ("GASB") No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective July 1, 2010.

The accompanying management's discussion and analysis ("MD&A") for the years ended June 30, 2012 and 2011, the Schedule of Plan Funding Progress as of July 1, 2007 through March 31, 2012 (Unaudited), the Historical Summary of Actual and Required Pension Contributions as of July 1, 2006 through June 30, 2012 (Unaudited), and the Historical Summary of Actual and Required Other Postemployment Contributions under GASB Statement No. 45 as of July 1, 2009 through June 30, 2012 (Unaudited) as listed in the index 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in the 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 as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with 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. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated basic financial statements.

*Privatehouse Cooper LLP*

September 26, 2012

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Net Assets**  
**June 30, 2012 and 2011**

(in thousands of dollars)

	2012	2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 24,060	\$ 17,794
Short-term investments	128,678	108,942
Patient accounts receivable, net of allowance for uncollectibles of \$43,685 and \$35,557, respectively	148,408	112,344
Inventories	12,734	13,001
Prepaid expenses and other current assets	51,438	38,309
Assets whose use is restricted, current portion	18,186	20,311
Total current assets	<u>383,504</u>	<u>310,701</u>
Assets whose use is restricted, less current portion	175,731	201,814
Capital assets, net	721,169	732,468
Other assets	276,671	197,596
Total assets	<u>\$ 1,557,075</u>	<u>\$ 1,442,579</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Long-term debt, current portion	\$ 19,848	\$ 20,834
Capital lease obligations, current portion	904	873
Accounts payable and accrued expenses	69,348	58,277
Accrued salaries and leave payable	39,664	49,882
Estimated third-party payor settlements	56,497	64,796
Total current liabilities	<u>186,261</u>	<u>194,662</u>
Long-term liabilities		
Long-term debt, noncurrent portion	467,651	477,839
Capital lease obligations, noncurrent portion	542	1,447
Other liabilities	87,299	37,660
Total long-term liabilities	<u>555,492</u>	<u>516,946</u>
Total liabilities	<u>741,753</u>	<u>711,608</u>
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	234,390	233,936
Restricted		
Nonexpendable	97	97
Expendable	8,750	5,684
Unrestricted	572,085	491,254
Total net assets	<u>815,322</u>	<u>730,971</u>
Total liabilities and net assets	<u>\$ 1,557,075</u>	<u>\$ 1,442,579</u>

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Revenues, Expenses and Changes in Net**  
**Assets**  
**Years Ended June 30, 2012 and 2011**

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*(in thousands of dollars)*

	2012	2011
<b>Operating revenues</b>		
Net patient service revenue, net of provision for bad debts of \$97,310 and \$85,176, respectively	\$ 1,060,568	\$ 960,344
Other operating revenue	25,598	17,383
Total operating revenues	<u>1,086,166</u>	<u>977,727</u>
<b>Operating expenses</b>		
Salaries and benefits	479,817	462,739
Supplies and services	439,675	423,874
Depreciation and amortization	52,351	51,948
Total operating expenses	<u>971,843</u>	<u>938,561</u>
Operating income	<u>114,323</u>	<u>39,166</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	4,000	7,500
Interest expense	(15,999)	(16,860)
Net investment income, including change in fair value	11,604	37,051
Gain on disposal of capital assets, net	555	4,037
Other nonoperating revenues	5,933	4,104
Total nonoperating revenues, net	<u>6,093</u>	<u>35,832</u>
Excess of revenues over expenses before transfers, capital contributions, changes in fair value of hedging derivative instruments, and other changes in net assets	<u>\$ 120,416</u>	<u>\$ 74,998</u>

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Revenues, Expenses and Changes in Net**  
**Assets**  
**Years Ended June 30, 2012 and 2011**

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*(in thousands of dollars)*

	2012	2011
Excess of revenues over expenses before transfers, capital contributions, changes in fair value of hedging derivative instruments, and other changes in net assets	\$ 120,416	\$ 74,998
Capital contributions	1,612	674
Transfers and expenditures in support of the University of Florida and its medical programs	(40,744)	(37,675)
Change in accounting treatment of effective derivative instruments and change in fair value of hedging derivative instruments	-	39,649
Shands Jacksonville note receivable	-	42,276
Other changes in net assets	3,067	1,714
Increase in net assets	<u>84,351</u>	<u>121,636</u>
<b>Net assets</b>		
Beginning of year	<u>730,971</u>	<u>609,335</u>
End of year	<u>\$ 815,322</u>	<u>\$ 730,971</u>

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

(in thousands of dollars)

	2012	2011
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 1,018,705	\$ 965,769
Other receipts from operations	26,833	14,335
Salaries and benefits paid to employees	(489,662)	(506,511)
Payments to suppliers and vendors	(438,928)	(414,142)
Net cash provided by operating activities	<u>116,948</u>	<u>59,451</u>
<b>Cash flows from noncapital financing activities</b>		
Payments received on notes receivable	3,234	1,609
Payments in support of the University of Florida and its medical programs	(40,744)	(37,399)
Donations and pledge receipts	2,854	4,108
Net cash used in noncapital financing activities	<u>(34,656)</u>	<u>(31,682)</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(59,511)	(58,044)
Proceeds from sale of capital assets	1	35,252
Proceeds from issuance of long-term debt	10,000	-
Payments of long-term debt and capital lease obligations	(21,189)	(17,715)
Interest payments	(16,566)	(17,570)
Capital contributions	1,583	640
Net cash used in capital and related financing activities	<u>(85,682)</u>	<u>(57,437)</u>
<b>Cash flows from investing activities</b>		
Investment income received	5,197	5,856
Interest in joint venture	-	(14,117)
Purchase of short-term investments and assets whose use is restricted	(182,341)	(163,110)
Sale of short-term investments and assets whose use is restricted	186,997	194,306
Partial termination of the 2008A fixed rate payer interest rate swap	-	(3,357)
Other investing activity	(197)	407
Net cash provided by investing activities	<u>9,656</u>	<u>19,985</u>
Net increase (decrease) in cash and cash equivalents	6,266	(9,683)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>17,794</u>	<u>27,477</u>
End of year	<u>\$ 24,060</u>	<u>\$ 17,794</u>

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidated Basic Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

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*(in thousands of dollars)*

	2012	2011
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 114,323	\$ 39,166
Adjustments to operating income to net cash provided by operating activities		
Depreciation and amortization	52,351	51,948
Provision for bad debts	97,310	85,176
Changes in:		
Patient accounts receivable	(131,246)	(75,191)
Prepaid expenses and other current assets	(10,037)	9,924
Inventories	267	(959)
Other assets	2,823	(4,971)
Accounts payable and accrued expenses	8,930	2,690
Accrued salaries and leave payable	(10,218)	(1,645)
Estimated third-party payor settlements	(8,299)	(4,560)
Other liabilities	744	(42,127)
Total adjustments	2,625	20,285
Net cash provided by operating activities	\$ 116,948	\$ 59,451
<b>Supplemental noncash investing, capital and financing activities</b>		
Shands Jacksonville note receivable (Note 11)	\$ -	\$ 42,276
Capital assets financed through long-term debt	-	8,350

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

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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#### 1. Organization

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries ("Shands") was incorporated on October 15, 1979 as a Florida not-for-profit corporation. The President of the University of Florida ("UF"), or his designee, serves as the President of Shands' Board of Directors and retains appointment and termination rights over a majority of the members of Shands' Board of Directors. The President of UF is deemed a state official as the position is appointed by a Board of Trustees that govern UF (the "UF Board"), and the members of the UF Board are appointed by the Governor and the Board of Governors of the state of Florida.

Shands operates a multi-hospital system. The accompanying consolidated basic financial statements consolidate the accounts of Shands and its subsidiaries, as described below:

- **Shands UF**, a division of Shands, is a major tertiary care teaching institution located in Gainesville, Florida, licensed to operate an 852-bed teaching hospital. Shands UF is a leading referral center in the State of Florida and provides clinical settings for medical education programs at the University of Florida.
- **Shands Vista**, a division of Shands, is an inpatient psychiatric and substance abuse facility located in Gainesville, Florida, licensed to operate 81 beds, of which 61 are psychiatric and 20 are substance abuse.
- **Shands Rehab Hospital**, a division of Shands, is a 40-bed inpatient rehabilitation hospital located on the same campus as Shands Vista.
- **Shands HomeCare**, a division of Shands, is a hospital-based home care agency providing home care services to the citizens of north central Florida.
- **Property Management**, a division of Shands, leases properties in Gainesville, Florida including a condominium medical office building and nonmedical buildings.
- **ElderCare of Alachua County, Inc. ("ElderCare")**, a Florida not-for-profit corporation, provides social and health care support to the elderly in Alachua County, Florida, through the operations of a Senior Recreation Center and programs such as Meals on Wheels and an Alzheimer's Day Care Center. Shands is the sole corporate member of ElderCare.
- **Southeastern HealthCare Foundation, Inc. ("Foundation")**, a Florida not-for-profit corporation, provides charitable aid to the University of Florida and to Shands and owns and leases various rental properties in Florida. Shands is the sole corporate member of the Foundation.
- **First Coast Advantage Central, LLC** is a provider service network ("PSN") established to administer Medicaid in Alachua County and certain contiguous counties.

On July 1, 2010, Shands sold the operating assets and certain liabilities of three rural hospitals (Shands at Lake Shore, Shands Starke, and Shands Live Oak) to Health Management Associates, Inc. ("HMA"). Shands then entered into a partnership agreement with HMA for a 40% minority interest in Lake Shore HMA, LLC, Starke HMA, LLC, and Live Oak HMA, LLC and HMA manages the operations of the three facilities. Shands also has an equal partnership interest with Solantic of Orlando, LLC for a walk-in urgent care center.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2012 and 2011**

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Effective September 8, 2010, the Board of Directors of Shands approved a motion to reorganize its corporate structure. Under the reorganization, Shands will no longer be the sole corporate member of Shands Jacksonville HealthCare, Inc. ("Shands Jacksonville"), but will continue as an affiliated entity under common control of UF. Effective September 27, 2010, the Board of Directors of Shands Jacksonville approved the motion for Shands to no longer be the sole corporate member of Shands Jacksonville. The reorganization is being accounted for under the de-pooling method of accounting, and, as such, Shands Jacksonville is no longer consolidated with Shands effective July 1, 2010. Therefore, the financial position and results of operations and changes in net assets of Shands Jacksonville are not included in these consolidated basic financial statements.

The condensed results of operations and changes in net assets of Shands Jacksonville from July 1, 2010 to September 27, 2010 are as follows:

*(in thousands of dollars)*

Net patient service revenue	\$ 127,459
Other operating revenue	5,299
Operating revenues	<u>132,758</u>
Operating expenses	<u>123,404</u>
Operating income	9,354
Nonoperating revenues, net	<u>245</u>
Excess of revenues over expenses	9,599
Other changes in net assets	
Expenditures in support of the University of Florida and its medical programs	(6,479)
Note payable to Shands	<u>(42,276)</u>
Decrease in net assets	<u>\$ (39,156)</u>

**2. Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies followed by Shands in the presentation of these consolidated basic financial statements:

**Basis of Presentation**

The accompanying consolidated basic financial statements have been prepared on the accrual basis of accounting and include the accounts of Shands and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

As of July 1, 2010, Shands adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("GASB No. 62"). GASB No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989 that don't conflict with GASB pronouncements:

- FASB Statements and Interpretations;
- Accounting Principles Board Opinions; and

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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- Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure.

GASB No. 62 also supersedes GASB No. 20, thereby eliminating the election provided in GASB No. 20 for enterprise funds and governments engaged in business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. Adoption of GASB No. 62 had no impact on the consolidated basic financial statements. Shands uses the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.

#### **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**

Shands 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 original 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 primarily consist of domestic and global fixed income funds, global equity funds, hedge funds, and a private equity partnership.

Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in nonoperating revenues when earned.

The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments held by Shands include private equity and hedge funds. Shands classifies its alternative investments as assets whose use is restricted, less current portion in the accompanying consolidated basic statements of net assets as management does not have the intent, and in the case of its investments in private equity, does not have the ability to sell a portion of the alternative investments in the near term. The estimated fair value of the private equity and hedge funds is based on valuations provided by the respective partnerships or funds. Shands reviews and evaluates the values provided by the partnerships or funds and agrees with the valuation methods and assumptions used in determining the fair value of the private equity and hedge fund investments. As of June 30, 2012, these equity investments in hedge funds and private equity make up approximately 4% and 1%, respectively, of total investments in the accompanying consolidated basic statements of net assets. As of June 30, 2011, these equity investments in hedge funds and private equity made up approximately 6% and 1%, respectively, of total investments in the accompanying consolidated basic statements of net assets. Because private equity and hedge funds are not readily marketable, their estimated value is subject to uncertainty

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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and therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. 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 assets in the period such fluctuations occur.

#### **Assets Whose Use is Restricted**

Assets whose use is restricted primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors (the "Board"). The Board retains control of the designated assets and may, at its discretion, subsequently determine their use for other purposes. Amounts required to meet current liabilities are reported as current assets.

#### **Inventories**

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

#### **Pledges Receivable**

Pledges receivable represents donor commitments to provide future funding, primarily in association with various capital construction projects at Shands. Pledges receivable are recorded net of an estimated reserve. The current portion of pledges receivable are reported in prepaid expenses and other current assets in the accompanying consolidated basic statements of net assets. The long-term portion of pledges receivable are reported in other assets in the accompanying consolidated basic statements of net assets. For the years ended June 30, 2012 and 2011, pledge discount rates range from 3% - 7% and are generally due in five years or greater.

#### **Capital Assets**

Capital assets have been recorded at historical cost or fair market value at date of purchase or donation, respectively. Equipment under capital leases is stated at the present value of minimum lease payments at the inception of the lease. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity or extend the useful life of an asset are capitalized. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the related depreciable assets as recommended by the American Hospital Association. 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 assets. Gains and losses on dispositions are recorded in the year of disposal.

#### **Goodwill**

Goodwill represents the excess of the acquisition cost over the fair value of the net assets of businesses acquired. Goodwill was approximately \$2,982,000 at June 30, 2012 and 2011 and is included in other assets in the accompanying consolidated basic statements of net assets. Goodwill is evaluated for impairment annually. Management evaluated goodwill and based on the analysis performed, no impairment loss was recorded for the years ended June 30, 2012 and 2011.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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#### **Joint Ventures**

In May 2010, Shands entered into an agreement to sell a 60% controlling interest in its three rural hospitals, Shands at Lake Shore, Shands Starke, and Shands Live Oak to HMA. The closing date of the sale was July 1, 2010. Shands recognized a gain on disposal of capital assets of approximately \$4,711,000 which is included in gain on disposal of capital assets in the accompanying consolidated basic statements of revenues, expenses and changes in net assets for the year ended June 30, 2011. Shands accounts for the investment under the equity method of accounting. An investment of approximately \$12,438,000 and \$12,823,000 at June 30, 2012 and 2011, respectively, was recorded in other assets in the accompanying consolidated basic statements of net assets. An investment loss of approximately \$760,000 and \$1,545,000 for the years ended June 30, 2012 and 2011, respectively, was recorded in other nonoperating revenues in the accompanying consolidated basic statements of revenues, expenses and changes in net assets.

#### **Bond Issuance Costs and Bond Premium and Discounts**

Bond issuance costs and bond premiums and discounts are amortized over the period the bonds are outstanding using the effective interest method. Amortization of bond issuance costs of approximately \$294,000 and \$320,000 was recorded for the years ended June 30, 2012 and 2011, respectively, and unamortized bond costs at June 30, 2012 and 2011 of approximately \$2,167,000 and \$2,461,000, respectively, was recorded in other assets in the accompanying consolidated basic statements of net assets.

#### **Accrued Personal Leave**

Shands 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. Shands 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 varying amounts.

#### **Long-Term Debt**

The fair value of fixed rate 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 fair value of variable rate debt approximates its carrying value. The carrying value of Shands' long-term debt is approximately \$487,499,000 and \$498,673,000 at June 30, 2012 and 2011, respectively. The fair value is approximately \$454,948,000 and \$461,280,000 at June 30, 2012 and 2011, respectively.

#### **Net Assets**

Net assets are categorized as "invested in capital assets, net of related debt," "restricted-expendable," "restricted-nonexpendable," and "unrestricted." Invested in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with non-liquid capital assets, less outstanding balances due on borrowings used to finance the purchase or construction of those assets. Restricted net assets have restrictions placed on the use of net assets through external constraints imposed by contributors. Restricted-nonexpendable net assets are those that have been restricted by donors to be maintained by Shands in perpetuity. Restricted-expendable net assets are those whose use by Shands has been limited by donors to a specific time period or purpose. Unrestricted net assets are net assets that do not meet the definition of invested in capital assets, net of related debt and have no third-party restrictions on use.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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#### **Operating Revenues and Expenses**

Shands' consolidated basic statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, Shands' principal activity. State appropriations, net investment income, interest expense, and gain 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 as capital contributions. Operating expenses are all expenses incurred to provide health care services, excluding financing costs.

#### **Net Patient Service Revenue and Patient Accounts Receivable**

Shands has agreements with third-party payors that provide for payments to Shands 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 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, 2012 and 2011, net patient service revenue increased approximately \$15,965,000 and \$13,676,000, 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**

Shands participates in the federal Medicare program ("Medicare"). Approximately 31% of Shands' net patient service revenue in fiscal years 2012 and 2011 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. Shands is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Shands and audits by the Medicare fiscal intermediary. Shands' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2012, the Medicare cost reports were final settled by Shands' Medicare fiscal intermediary through June 30, 2006.

It is management's opinion that settlements of outstanding Medicare cost 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 assets.

#### **Medicaid**

Approximately 19% and 22% of Shands' net patient service revenue for fiscal years 2012 and 2011, respectively, was derived under the Medicaid program. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon a cost reimbursement methodology subject to certain ceilings. Shands is reimbursed at a tentative rate with final

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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settlement determined after submission of annual cost reports by Shands, and audits by the Medicaid fiscal intermediary. As of June 30, 2012, the Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2005. In addition to the tentative payments received by Shands 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 assets.

Shands' Medicaid interim rates are based on the most recent "as filed" Medicare/Medicaid cost report. The rates used for 2012 were based on the unaudited cost report for 2010. The rates used for 2011 were based on the unaudited cost report for 2009.

It is management's opinion that settlements of outstanding Medicaid cost 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 assets.

#### **Other Third-Party Payors**

Shands 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 Shands' policies.

#### **Risk Management**

Shands 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, 2012 and 2011.

Effective July 1, 2011, Shands 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**

Shands' derivative financial instruments consist of interest rate swaps, which are utilized by Shands to manage net exposure to interest rate changes associated with its variable rate debt and to lower its overall borrowing costs. Shands accounts for its derivative financial instruments under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). GASB No. 53 addresses the recognition, measurement, and disclosure of information

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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regarding derivative instruments entered into by state and local governments (Note 7). Shands entered into the floating to fixed interest rate swap agreements to reduce the market risk associated with the changes in interest rates related to Shands' revenue bonds. For those interest rate swaps that qualify for hedge accounting, as they are highly effective in offsetting changes to expected future cash flows on interest payments, changes in the fair value of the interest rate swap agreement are considered to be deferred inflows or outflows. Deferred outflows related to hedging instruments are recorded in other assets while deferred inflows related to hedging instruments are recorded in other liabilities within the consolidated basic statements of net assets. Changes in fair value of interest rate swaps that do not qualify for hedge accounting are included within net investment income in the accompanying consolidated basic statements of revenues, expenses and changes in net assets.

#### **Accounting Pronouncements**

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63"). GASB No. 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB No. 63 are effective for financial statements for periods beginning after December 15, 2011. Shands does not expect the adoption of GASB No. 63 to have a material impact on its consolidated basic financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* ("GASB No. 64"), an amendment of GASB No. 53. GASB No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. GASB No. 64 sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of GASB No. 64 are effective for financial statements for periods beginning after June 15, 2011. The adoption of GASB No. 64 did not have a material impact on Shands' consolidated basic financial statements.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65"). GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations, and limits the use of the term 'deferred' in financial statements. The provisions of GASB No. 65 are effective for financial statements for periods beginning after December 15, 2012. Shands is currently evaluating the impact GASB No. 65 will have on its consolidated basic financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections - 2012, an Amendment of GASB Statements No. 10 and No. 62* ("GASB No. 66"). The objective of GASB No. 66 is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 66 amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in GASB Statement No. 54 and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB No. 66 also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of GASB No. 66 are effective for financial statements for periods beginning after December 15, 2012. Shands is currently evaluating the impact GASB No. 66 will have on its consolidated basic financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* ("GASB No. 68"). The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. 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 (hereafter jointly referred to as trusts) that meet certain criteria. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. 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. GASB No. 68 is effective for fiscal years beginning after June 15, 2014. Shands is currently evaluating the impact GASB No. 68 will have on its consolidated basic financial statements.

### 3. **Un-sponsored Community Benefit**

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

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

Community benefit categories include financial assistance, community health services, health professions education, research, and donations. Shands 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.

Shands has policies for 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 asset criteria. Because Shands does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. Shands maintains records to identify and monitor the level of financial assistance it provides. Charges foregone for services provided under Shands' financial assistance policy as a percentage of total charges for the years ended June 30, 2012 and 2011 were approximately 6.1% and 5.2%, respectively.

In addition to financial assistance, Shands 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 Shands 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 professions education includes education provided in clinical settings such as internships and programs for physicians, nurses, and allied health professionals. It also includes scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.
- Research includes studies on health care delivery, unreimbursed studies on therapeutic protocols, evaluation of innovative treatments, and research papers prepared for professional journals.
- Donations include funds and in-kind services benefiting the community-at-large.

Shands' valuation of unsponsored community benefits at cost for the years ended June 30, 2012 and 2011 is as follows:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Financial assistance provided	\$ 59,679	\$ 49,790
Government support applied to charity care	(4,270)	(11,240)
Net unreimbursed financial assistance	<u>55,409</u>	<u>38,550</u>
Benefits for the broader community		
Community health services	885	1,501
Health professions education	39,373	30,794
Research	8,095	10,577
Donations	1,635	2,550
Total quantifiable benefits for the broader community	<u>49,988</u>	<u>45,422</u>
Total unsponsored community benefits	<u>\$ 105,397</u>	<u>\$ 83,972</u>

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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### June 30, 2012 and 2011

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

Shands 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 in Gainesville, Florida. Shands also maintains air ambulance services at its trauma center, as well as a regional burn intensive care unit in Gainesville, Florida to help meet the emergency needs of citizens. Other specialty services provided at Shands' facilities include a transplant center of excellence for adult and pediatric patients in several disciplines including: heart, lung, liver, kidney, pancreas, and bone marrow. In addition, Shands provides specialized pediatric services including several levels of neonatal intensive care, pediatric intensive care, pediatric open heart and cardiac catheterization.

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

#### 4. Investments and Assets Whose Use is Restricted

The composition of investments and assets whose use is restricted at June 30, 2012 is as follows:

(in thousands of dollars)

	Fair Value	Investment Maturities				N/A
		Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years	
Commercial paper and money						
market funds	\$ 1,149	\$ 1,149	\$ -	\$ -	\$ -	\$ -
Florida Treasury Investment Pool (SPIA)	98,421	-	98,421	-	-	-
Fixed income mutual funds	42,314	-	7,780	34,534	-	-
Florida Global Fixed Income Fund, LLC	59,233	-	-	-	-	59,233
Florida Global Equity Fund, LLC	71,373	-	-	-	-	71,373
Florida Hedged Strategies Fund, LLC	14,043	-	-	-	-	14,043
Collateral on deposit with swap counterparty	31,354	31,354	-	-	-	-
Pantheon USA Fund V, L.P.	3,940	-	-	-	-	3,940
Other investments	768	-	-	135	-	633
	<u>\$ 322,595</u>	<u>\$ 32,503</u>	<u>\$ 106,201</u>	<u>\$ 34,669</u>	<u>\$ -</u>	<u>\$ 149,222</u>

The composition of investments and assets whose use is restricted at June 30, 2011 is as follows:

(in thousands of dollars)

	Fair Value	Investment Maturities				N/A
		Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years	
Commercial paper and money						
market funds	\$ 2,460	\$ 2,460	\$ -	\$ -	\$ -	\$ -
Florida Treasury Investment Pool (SPIA)	65,416	-	65,416	-	-	-
Fixed income mutual funds	39,963	7,687	-	32,276	-	-
Florida Global Fixed Income Fund, LLC	73,739	-	-	-	-	73,739
Florida Global Equity Fund, LLC	99,518	-	-	-	-	99,518
Florida Hedged Strategies Fund, LLC	20,476	-	-	-	-	20,476
Guaranteed Investment Contract (GIC)	16,433	16,433	-	-	-	-
Collateral on deposit with swap counterparty	8,111	8,111	-	-	-	-
Pantheon USA Fund V, L.P.	4,117	-	-	-	-	4,117
Other investments	834	-	-	98	-	736
	<u>\$ 331,067</u>	<u>\$ 34,691</u>	<u>\$ 65,416</u>	<u>\$ 32,374</u>	<u>\$ -</u>	<u>\$ 198,586</u>

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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Shands has an investment management agreement with the University of Florida Investment Corporation ("UFICO") to manage a portion of its investments. UFICO was created by the University of Florida Trustees for the purpose of managing assets held by UF and its related corporations. As of June 30, 2012 and 2011, a portion of Shands' investments managed by UFICO are invested in the Florida Global Equity Fund, LLC, Florida Global Fixed Income Fund, LLC, and Florida Hedged Strategies Fund, LLC. Shands can redeem 90% of the limited liability company ("LLC") investments with 45 days' notice, and under certain conditions including liquidity needs, can redeem all of its LLC investments with three business days' notice.

Assets whose use is restricted include amounts internally designated by the Board of Directors and amounts held by trustees and swap counterparty with external restrictions and are comprised of the following at June 30, 2012 and 2011:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Internally designated by the Board of Directors for:		
Capital improvements and debt service	\$ 136,786	\$ 185,501
Other health programs	5,420	5,745
Other postemployment benefits	2,431	2,473
Held by counterparty under swap agreements	31,354	8,111
Held by trustees under indenture agreements	17,926	20,295
	<u>193,917</u>	<u>222,125</u>
Less: Current portion	<u>(18,186)</u>	<u>(20,311)</u>
Long-term portion	<u>\$ 175,731</u>	<u>\$ 201,814</u>

**Investment Risk Factors**

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

**Credit Risk**

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Shands' investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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The credit risk profile of Shands' investments and assets whose use is restricted as of June 30, 2012 is as follows:

*(in thousands of dollars)*

	Fair Value	Ratings			
		AAA	AA	Af	N/A
Commercial paper and money market funds	\$ 1,149	\$ -	\$ -	\$ -	\$ 1,149
Florida Treasury Investment Pool (SPIA)	98,421	-	-	98,421	-
Fixed income mutual funds	42,314	-	-	-	42,314
Florida Global Fixed Income Fund, LLC	59,233	-	-	-	59,233
Florida Global Equity Fund, LLC	71,373	-	-	-	71,373
Florida Hedged Strategies Fund, LLC	14,043	-	-	-	14,043
Collateral on deposit with swap counterparty	31,354	-	-	-	31,354
Pantheon USA Fund V, L.P.	3,940	-	-	-	3,940
Other investments	768	-	-	-	768
	<u>\$ 322,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,421</u>	<u>\$ 224,174</u>

The credit risk profile of Shands' investments and assets whose use is restricted as of June 30, 2011 is as follows:

*(in thousands of dollars)*

	Fair Value	Ratings			
		AAA	AA	Af	N/A
Commercial paper and money market funds	\$ 2,460	\$ -	\$ -	\$ -	\$ 2,460
Florida Treasury Investment Pool (SPIA)	65,416	-	-	65,416	-
Fixed income mutual funds	39,963	-	-	-	39,963
Florida Global Fixed Income Fund, LLC	73,739	-	-	-	73,739
Florida Global Equity Fund, LLC	99,518	-	-	-	99,518
Florida Hedged Strategies Fund, LLC	20,476	-	-	-	20,476
Guaranteed Investment Contract (GIC)	16,433	-	-	-	16,433
Collateral on deposit with swap counterparty	8,111	-	-	-	8,111
Pantheon USA Fund V, L.P.	4,117	-	-	-	4,117
Other investments	834	-	-	-	834
	<u>\$ 331,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,416</u>	<u>\$ 265,651</u>

**Concentration of Credit Risk**

Investments in any one issuer that represent 5% or more of Shands' 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, 2012 and 2011, Shands did not have any investments that equaled or exceeded this threshold.

**Custodial Credit Risk**

As of June 30, 2012 and 2011, Shands' investments were not exposed to custodial credit risk since the full amount of investments were insured, collateralized, or registered in Shands' name.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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***Interest Rate Risk***

Shands does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Refer to the distribution of Shands' investment in fixed income securities by maturity as of June 30, 2012 and 2011.

Investment income, net for the years ended June 30, 2012 and 2011 is as follows:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Dividends, interest and other income	\$ 7,063	\$ 7,314
Realized gains, net	4,361	10,332
Net (decrease) increase in the fair value of investments	(7,735)	19,820
Net increase in the fair value of derivative instruments	7,915	2,942
Loss on partial termination of a derivative instrument	-	(3,357)
Net investment income	<u>\$ 11,604</u>	<u>\$ 37,051</u>

**5. Capital Assets**

A summary of changes in capital assets during fiscal years 2012 and 2011 is as follows:

<i>(in thousands of dollars)</i>	<b>Balance at June 30, 2011</b>	<b>Additions</b>	<b>Disposals and Transfers</b>	<b>Balance at June 30, 2012</b>
Land	\$ 45,578	\$ 1,990	\$ -	\$ 47,568
Buildings and leasehold improvements	765,122	10,818	6,901	782,841
Equipment	396,849	16,057	(9,866)	403,040
Totals at historical cost	1,207,549	28,865	(2,965)	1,233,449
Less: Accumulated depreciation for				
Buildings and leasehold improvements	(228,651)	(22,176)	-	(250,827)
Equipment	(274,615)	(30,175)	4,463	(300,327)
	(503,266)	(52,351)	4,463	(551,154)
Construction-in-progress	28,185	42,641	(31,952)	38,874
Capital assets, net	<u>\$ 732,468</u>	<u>\$ 19,155</u>	<u>\$ (30,454)</u>	<u>\$ 721,169</u>

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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<i>(in thousands of dollars)</i>	<b>Balance at June 30, 2010</b>	<b>Additions</b>	<b>Disposals and Transfers</b>	<b>Balance at June 30, 2011</b>
Land	\$ 43,829	\$ 1,749	\$ -	\$ 45,578
Buildings and leasehold improvements	760,663	4,588	(129)	765,122
Equipment	<u>373,361</u>	<u>36,380</u>	<u>(12,892)</u>	<u>396,849</u>
Totals at historical cost	1,177,853	42,717	(13,021)	1,207,549
Less: Accumulated depreciation for				
Buildings and leasehold improvements	(206,011)	(22,748)	108	(228,651)
Equipment	<u>(257,203)</u>	<u>(29,200)</u>	<u>11,788</u>	<u>(274,615)</u>
	(463,214)	(51,948)	11,896	(503,266)
Construction-in-progress	<u>9,849</u>	<u>27,211</u>	<u>(8,875)</u>	<u>28,185</u>
Capital assets, net	<u>\$ 724,488</u>	<u>\$ 17,980</u>	<u>\$ (10,000)</u>	<u>\$ 732,468</u>

Depreciation and amortization expense was approximately \$52,351,000 and \$51,948,000 for the years ended June 30, 2012 and 2011, respectively. Amortization expense on equipment held under capital lease which is included within depreciation and amortization expense in the accompanying consolidated basic statements of revenues, expenses and changes in net assets was approximately \$877,000 for each of the years ended June 30, 2012 and 2011. Interest costs capitalized were approximately \$262,000 and \$638,000 for the years ended June 30, 2012 and 2011, respectively. Construction-in-progress at June 30, 2012 consists primarily of costs incurred for a new electronic medical records system, a medical office building and building renovations. Shands has contracts for the construction and remodeling of facilities and equipment purchases. As of June 30, 2012, estimated cost to complete the installation of the projects was approximately \$38,892,000.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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**6. Long-Term Debt**

Long-term debt is comprised of the following at June 30, 2012 and 2011:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Health Facilities Revenue Bonds		
Series 1996A, final maturity December 2016	\$ 12,695	\$ 14,805
Series 2007A, final maturity December 2037	100,395	100,395
Series 2007B, final maturity December 2037	35,000	35,000
Series 2008A, final maturity December 2037	75,000	75,000
Series 2008B, final maturity December 2037	50,000	50,000
Series 2008C, final maturity October 2028	61,875	65,625
Series 2008D1, final maturity December 2023	21,715	21,715
Series 2008D2, final maturity December 2030	22,625	22,625
Series 2010A, final maturity July 2025	64,432	67,613
Series 2010B, final maturity December 2015	29,115	36,935
	<hr/>	<hr/>
	472,852	489,713
Bank Note Payable, final maturity March 2019	9,660	-
Installment debt, final maturity November 2013	4,800	8,350
	<hr/>	<hr/>
	487,312	498,063
Less: Net unamortized bond premium	187	610
Total long-term debt	<hr/>	<hr/>
	487,499	498,673
Less: Current portion	(19,848)	(20,834)
Long-term portion	<hr/>	<hr/>
	\$ 467,651	\$ 477,839

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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Changes in Shands' long-term debt, excluding unamortized discounts or premiums were as follows:

<i>(in thousands of dollars)</i>	<b>Balance at June 30, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2012</b>	<b>Amounts Due Within One Year</b>
Health Facilities Revenue Bonds					
Series 1996A, final maturity December 2016	\$ 14,805	\$ -	\$ (2,110)	\$ 12,695	\$ 2,240
Series 2007A, final maturity December 2037	100,395	-	-	100,395	-
Series 2007B, final maturity December 2037	35,000	-	-	35,000	-
Series 2008A, final maturity December 2037	75,000	-	-	75,000	-
Series 2008B, final maturity December 2037	50,000	-	-	50,000	3,190
Series 2008C, final maturity October 2028	65,625	-	(3,750)	61,875	3,750
Series 2008D1, final maturity December 2023	21,715	-	-	21,715	-
Series 2008D2, final maturity December 2030	22,625	-	-	22,625	-
Series 2010A, final maturity July 2025	67,613	-	(3,181)	64,432	3,182
Series 2010B, final maturity December 2015	36,935	-	(7,820)	29,115	2,220
Bank Note Payable, final maturity March 2019	-	10,000	(340)	9,660	1,340
Installment debt, final maturity November 2013	8,350	-	(3,550)	4,800	3,550
<b>Total long-term debt</b>	<b>\$ 498,063</b>	<b>\$ 10,000</b>	<b>\$ (20,751)</b>	<b>\$ 487,312</b>	<b>\$ 19,472</b>

<i>(in thousands of dollars)</i>	<b>Balance at June 30, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2011</b>	<b>Amounts Due Within One Year</b>
Health Facilities Revenue Bonds					
Series 1996A, final maturity December 2016	\$ 16,790	\$ -	\$ (1,985)	\$ 14,805	\$ 2,110
Series 2007A, final maturity December 2037	100,395	-	-	100,395	-
Series 2007B, final maturity December 2037	35,000	-	-	35,000	-
Series 2008A, final maturity December 2037	75,000	-	-	75,000	-
Series 2008B, final maturity December 2037	50,000	-	-	50,000	-
Series 2008C, final maturity October 2028	69,375	-	(3,750)	65,625	3,750
Series 2008D1, final maturity December 2023	21,715	-	-	21,715	-
Series 2008D2, final maturity December 2030	22,625	-	-	22,625	-
Series 2010A, final maturity July 2025	70,000	-	(2,387)	67,613	3,182
Series 2010B, final maturity December 2015	44,685	-	(7,750)	36,935	7,820
Health Facilities Revenue Note					
Series 2000, final maturity December 2010	500	-	(500)	-	-
Installment debt, final maturity November 2013	-	8,850	(500)	8,350	3,550
<b>Total long-term debt</b>	<b>\$ 506,085</b>	<b>\$ 8,850</b>	<b>\$ (16,872)</b>	<b>\$ 498,063</b>	<b>\$ 20,412</b>

The current portion of net unamortized bond premium was approximately \$376,000 and \$422,000 as of June 30, 2012 and 2011, respectively.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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Maturities of long-term debt including corresponding interest, over the next five years and in five-year increments thereafter are as follows:

*(in thousands of dollars)*

<b>Year Ending June 30</b>	<b>Debt Service Principal</b>	<b>Debt Service Interest</b>
2013	\$ 19,472	\$ 8,814
2014	20,482	8,263
2015	19,822	7,551
2016	20,457	6,807
2017	15,342	6,300
2018-2022	63,604	27,146
2023-2027	71,773	19,219
2028-2032	96,780	11,025
2033-2037	126,890	4,480
2038	32,690	112
	<u>\$ 487,312</u>	<u>\$ 99,717</u>

Shands has entered into a Master Trust Indenture with U.S. Bank, National Association ("U.S. Bank") which serves as the primary financing document for Shands and its subsidiaries, excluding ElderCare, joint ventures and the Foundation. During 2007, Shands amended the Master Trust Indenture and pledged a security interest in its gross revenues on Shands' debt obligations. The Master Trust Indenture provides for specific restrictive covenants, including a debt service coverage requirement. Shands was in compliance with all such restrictive covenants as of June 30, 2012 and 2011.

**Series 1996A Health Facilities Revenue Bonds**

In 1996, the Alachua County Health Facilities Authority issued the Series 1996A Health Facilities Revenue Bonds ("Series 1996A Bonds") on behalf of Shands. The proceeds of the Series 1996A Bonds were used to finance capital improvement projects and pay related issuance costs.

The Series 1996A Bonds are fixed rate bonds, which are collateralized by the unconditional and irrevocable guarantee of the Municipal Bond Investors Assurance Corporation and have a termination date which is coterminous with the Series 1996A Bonds. The interest rate on the Series 1996A Bonds is 6.25% and is payable semiannually. The Series 1996A Bonds are covered under the Master Trust Indenture with U.S. Bank.

**Series 2007A Health Facilities Revenue Bonds and Series 2007B Health Facilities Revenue Refunding Bonds**

In 2007, the Alachua County Health Facilities Authority issued the Series 2007A Health Facilities Revenue Bonds ("Series 2007A Bonds") and the Series 2007B Health Facilities Revenue Bonds ("Series 2007B Bonds") on behalf of Shands. The proceeds of the Series 2007A Bonds were used to finance capital improvement projects and pay costs associated with the issuance of the Series 2007A Bonds. The proceeds of the Series 2007B Bonds were used to partially refund outstanding principal of the Series 1996A Health Facilities Revenue Bonds and to pay costs associated with the issuance of the Series 2007B Bonds.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

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The Series 2007A Bonds and Series 2007B Bonds are variable index rate bonds. The Series 2007A Bonds and Series 2007B Bonds maturing on or after June 1, 2017 are redeemable at Shands' option at par value. The interest rate on the bonds is reset quarterly and the interest rate was 1.18% and 1.04% at June 30, 2012 and 2011, respectively. The Series 2007A Bonds and Series 2007B Bonds are covered under the Master Trust Indenture with U.S. Bank.

#### **Series 2008A and 2008B Health Facilities Revenue Bonds**

In 2008, the Alachua County Health Facilities Authority issued the Series 2008A Health Facilities Revenue Bonds ("Series 2008A Bonds") and the Series 2008B Health Facilities Revenue Bonds ("Series 2008B Bonds") on behalf of Shands. The proceeds of the Series 2008A Bonds and Series 2008B Bonds were used to retire the Series 2007C Bonds and Series 2007D Bonds.

The Series 2008A Bonds and Series 2008B Bonds are variable rate bonds issued in the Unit Pricing Mode. Interest periods range from 1 to 270 days. The weighted average interest rate on the Series 2008A Bonds and the Series 2008B Bonds was 0.25% and 0.22% at June 30, 2012 and 2011, respectively. The Series 2008A Bonds and Series 2008B Bonds are backed by a bank letter of credit for approximately \$126,798,000 that expires in January 2014. There were no amounts outstanding under this letter of credit at June 30, 2012 and 2011. The Series 2008A Bonds and Series 2008B Bonds are redeemable at the option of Shands at par value plus accrued interest at any interest payment date. The Series 2008A Bonds and Series 2008B Bonds are covered under the Master Trust Indenture with U.S. Bank.

#### **Series 2008C Health Facilities Revenue Bonds**

In 2008, the Alachua County Health Facilities Authority issued the Series 2008C Health Facilities Revenue Bonds ("Series 2008C Bonds") on behalf of Shands. The proceeds of the Series 2008C Bonds were used to refund the Series 1996B Bonds and pay related costs of issuance.

The Series 2008C Bonds are variable rate bonds based upon 65% of the London Interbank Offered Rate ("LIBOR") plus 1.30%. The interest rate on the Series 2008C Bonds was 1.46% and 1.42% at June 30, 2012 and 2011, respectively. The Series 2008C Bonds are covered under the Master Trust Indenture with U.S. Bank.

#### **Series 2008D1 and 2008D2 Health Facilities Revenue Bonds**

In 2008, the Alachua County Health Facilities Authority issued the Series 2008D1 Health Facilities Revenue Bonds ("Series 2008D1 Bonds") and the Series 2008D2 Health Facilities Revenue Bonds ("Series 2008D2 Bonds") on behalf of Shands. The proceeds of the Series 2008D1 Bonds and Series 2008D2 Bonds were used to refund a portion of the Series 2007A Bonds.

The Series 2008D1 Bonds and Series 2008D2 Bonds are unenhanced fixed rate bonds. Interest rates on the Series 2008D1 Bonds and Series 2008D2 Bonds range from 6.25% to 6.75% and are payable semiannually. The Series 2008D1 Bonds and Series 2008D2 Bonds maturing on or after December 1, 2018 are redeemable at Shands' option at par value. The Series 2008D1 Bonds and Series 2008D2 Bonds are covered under the Master Trust Indenture with U.S. Bank.

#### **Series 2010A Health Facilities Revenue Bonds**

In 2010, the Alachua County Health Facilities Authority issued the Series 2010A Health Facilities Revenue Bonds ("Series 2010A Bonds") on behalf of Shands. The proceeds of the Series 2010A Bonds were used to finance capital improvement projects and pay related costs of issuance.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

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The Series 2010A Bonds are variable rate bonds based upon 65% of LIBOR plus 1.105%. The interest rate on the Series 2010A Bonds was 1.29% at June 30, 2012 and 2011. The Series 2010A Bonds are covered under the Master Trust Indenture with U.S. Bank.

#### **Series 2010B Health Facilities Revenue Bonds**

In 2010, the Alachua County Health Facilities Authority issued the Series 2010B Health Facilities Revenue Bonds ("Series 2010B Bonds") on behalf of Shands. The proceeds of the Series 2010B Bonds were used to defease the Series 1992R Bonds.

The Series 2010B Bonds are unenhanced fixed rate bonds. Interest rates on the Series 2010B Bonds range from 3.00% to 5.00% and are payable semiannually. The Series 2010B Bonds are covered under the Master Trust Indenture with U.S. Bank.

#### **Bank Note**

In 2012, PNC Bank issued a seven year taxable loan to Shands to finance a property purchase, renovations, and equipment. Interest rate on the loan is fixed at 2.08%. Principal and interest payments are payable monthly commencing April 2012 with a final maturity in March 2019.

Cash paid for interest, net of amounts capitalized, was approximately \$16,419,000 and \$17,462,000 for the years ended June 30, 2012 and 2011, respectively.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

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#### 7. Interest Rate Swaps

On June 30, 2012 and 2011, Shands had the following derivative instruments outstanding:

(in thousands of dollars)

Item	Type	Objective	Shands Notional Amount	Counterparty Notional Amount	Effective Date	Maturity Date	Terms	2012 Fair Value	2011 Fair Value
1996B	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 1996B Revenue Bonds refinanced in 2008	\$ 75,000	\$ 75,000	7/03/2003	12/01/2026	Pay fixed rate of 3.175%. Receive 67% of one month LIBOR.	\$ (13,949)	\$ (6,580)
1996B	Fixed rate receiver interest rate swap	Hedge of changes in cash flows on the 1996B fixed rate payer interest rate swap	\$ 75,000	\$ 75,000	6/03/2009	12/01/2026	Pay SIFMA Municipal Swap Index rate. Receive fixed rate of 3.40%.	\$ 12,867	\$ 4,678
2007A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2007A Revenue Bonds	\$ 100,395	\$ 100,395	3/30/2007	12/01/2037	Pay fixed rate of 4.349%. Receive 67% of three month LIBOR plus 87 basis points.	\$ (33,275)	\$ (13,140)
2007B	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2007B Revenue Bonds	\$ 35,000	\$ 35,000	3/30/2007	12/01/2037	Pay fixed rate of 4.349%. Receive 67% of three month LIBOR plus 87 basis points.	\$ (10,837)	\$ (4,459)
2007A	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007A Revenue Bonds	\$ 27,950	\$ 40,000	1/27/2011	12/01/2016	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	\$ 4,316	\$ 680
2007B	Total return interest rate swap	Hedge of changes in cash flows on the Series 2007B Revenue Bonds	\$ 24,456	\$ 35,000	1/27/2011	12/01/2016	Pay SIFMA Municipal Swap Index rate plus 100 basis points. Receive 67% of three month LIBOR plus 87 basis points.	\$ 4,382	\$ 923
2008A	Fixed rate payer interest rate swap	Hedge of changes in cash flows on a portion of the Series 2008A Revenue Bonds	\$ 50,000	\$ 50,000	11/07/2007	12/01/2037	Pay fixed rate of 3.538%. Receive 67% of one month LIBOR.	\$ (17,456)	\$ (7,053)
2008C	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008C Revenue Bonds	\$ 61,875	\$ 61,875	11/05/2008	10/02/2028	Pay fixed rate of 4.18%. Receive 65% of one month LIBOR plus 130 basis points.	\$ (8,493)	\$ (4,278)
								<u>\$ (62,445)</u>	<u>\$ (29,229)</u>

During the years ended June 30, 2012 and 2011, the fixed rate 2007A, 2007B, 2008A and 2008C interest rate swaps qualified for hedge accounting under GASB No. 53. At June 30, 2012, approximately \$21,565,000 and \$84,010,000 related to the fair value of interest rate swaps is recorded in other assets and other liabilities, respectively, and at June 30, 2011, approximately \$6,281,000 and \$35,510,000 related to the fair value of interest rate swaps is recorded in other assets and other liabilities, respectively, in the accompanying consolidated basic statements of net assets.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

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The fair values of the fixed rate payer and fixed rate receiver interest rate swaps are estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps. The fair values of the 2007A and 2007B total return swaps are estimated using a forecast of expected discounted cash flows assuming that the forward rates would be similar to the rates for a healthcare credit rating similar to Shands.

#### **Credit Risk**

Shands has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2012, the credit ratings for the counterparty for the swap agreements with the exception of the 2008C swap agreement were Baa2/A-, and the credit ratings for the counterparty of the 2008C interest rate swap agreement was Baa2/BBB. As of June 30, 2011, the credit ratings for the counterparty for the swap agreements with the exception of the 2008C swap agreement were A2/A, and the credit ratings for the counterparty of the 2008C interest rate swap agreement was A3/A. The counterparty for all of the swap agreements with the exception of the 2008C swap agreement may be required to post collateral should it fail to meet certain minimum credit ratings.

#### **Interest Rate Risk**

Shands is not exposed to interest rate risk on all of its fixed rate payer interest rate swap agreements as they are structured in a receive variable, pay fixed rate mode. The 1996B fixed receiver swap is structured in a receive fixed, pay variable rate mode. However, the 1996B fixed receiver swap hedges the cash flows associated with the 1996B fixed payer swap. The 2007A and 2007B total return swaps are structured in a receive variable, pay variable rate mode and hedge the cash flows associated with the Series 2007A Bonds and Series 2007B Bonds.

#### **Basis Risk**

Shands is exposed to basis risk on its 2008A fixed rate payer swap agreement because the variable-rate payments received by Shands on the hedging derivative instrument is based on a rate or index other than the interest rates that Shands pays on its hedged variable rate debt, which is remarketed in varying amounts and at various dates. As of June 30, 2012 and 2011, the weighted variable interest rate on Shands hedged variable rate debt is 0.25% and 0.18%, respectively, while the swap index is 67% of one month LIBOR, or 0.16% and 0.12%, respectively.

#### **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**

Several of Shands' 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 Shands unenhanced credit rating as determined by Standard & Poor's and Moody's Investor Services. Collateral in the amount of approximately \$31,354,000 and \$8,111,000 was required to be posted as of June 30, 2012 and 2011, respectively.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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#### **Swap Termination**

Shands terminated a portion of the 2008A fixed payer interest rate swap in January 2011. The loss recognized on the swap termination was approximately \$3,357,000 which is included within net investment income in the accompanying consolidated basic statements of revenues, expenses and changes in net assets for the year ended June 30, 2011.

#### **8. Retirement Benefit Plans**

##### **Defined Contribution Plans**

Shands sponsors the Shands HealthCare Matched Savings Plan, which is a defined contribution plan that covers eligible employees of Shands. Under the provisions of the plan, employees' eligible contributions are matched by Shands at established rates. Contributions to the defined contribution plan by Shands were approximately \$9,904,000 and \$5,640,000 for the years ended June 30, 2012 and 2011, respectively.

##### **Defined Benefit Pension Plan**

Shands sponsors the Shands HealthCare Pension Plan (the "Plan") which is a defined benefit pension plan that covers eligible employees of Shands.

During April 2010, Shands' Board of Directors approved an amendment to the Plan. Effective July 1, 2011, Shands employees who were vested as of July 1, 2002 will begin to participate in the Retirement Growth Account (account-based benefit) and will no longer accrue traditional plan benefits. Employees who were not vested as of July 1, 2002 will continue to participate in the Retirement Growth Account (account-based benefit). Effective July 1, 2010, new employees hired by Shands will participate in the Shands HealthCare Matched Savings defined contribution plan.

##### **Contribution Requirements and Contributions Made**

The annual required contribution ("ARC") for the current year was determined as part of the actuarial valuation using the projected unit credit actuarial cost method. The Plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. All contributions to the Plan are made by the employer and are intended to fund both the actuarially determined costs, as well as the Plan's operating costs. Shands' practice is to make sufficient annual contributions in accordance with the actuarial funding requirements. Annual required contributions to the Plan for fiscal years 2012 and 2011 totaled approximately \$19,633,000 and \$26,271,000, respectively. The contributions represent approximately 5.44% and 6.63% of current covered payroll for fiscal years 2012 and 2011, respectively. Total pension expense for the years ended June 30, 2012 and 2011 totaled approximately \$27,484,000 and \$30,201,000, respectively. As of June 30, 2012 and 2011, Shands has a pension asset of approximately \$95,237,000 and \$82,021,000, respectively. Pension expense is allocated to Shands' facilities based on valuation of payroll.

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Information regarding payroll and participant data used in the calculation of the current-year actuarial information is as follows:

	2012	2011
Covered payroll for the calculation of the actuarial information	<u>\$ 361,028,469</u>	<u>\$ 396,053,964</u>
Participant data as of July 1, 2011 (date of most recent valuation)		
Active	7,035	7,688
Retired	1,656	1,472
Terminated vested	<u>3,902</u>	<u>3,812</u>
	<u>12,593</u>	<u>12,972</u>

The more significant actuarial assumptions utilized in the most recent actuarial valuation (April 1, 2012) for computing the annual required contributions for the Plan are as follows:

Assumed rate of return on investments	7.25% per year (net of expenses)
Mortality basis	2012 PPA separate static annuitant and nonannuitant mortality tables
Amortization method	Level dollar closed
Remaining amortization period	8 years
Asset valuation method	Market value smoothed over 5 years
Termination	Graduated rates from 20 to 50 are as follows:

**Table of Select Withdrawal Rates (Cash Balance Plan Benefits)**  
**Withdrawal (Based on Years of Service)**

Age	<2	2-2.99	3 or more
20	38.5%	21.1%	21.0%
25	35.0%	20.0%	18.5%
30	31.8%	18.6%	17.0%
35	29.3%	17.1%	15.5%
40	27.4%	15.3%	14.0%
45	25.7%	13.8%	12.0%
50	24.2%	12.3%	10.0%

**Table of Select and Ultimate Withdrawal Rates (Traditional Plan Benefits)**

Age	Percentage
20	16.7%
25	16.7%
30	13.3%
35	6.4%
40	5.9%
45	4.3%
50	3.6%

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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**Table of Salary Increases**

<b>Age</b>	<b>Percentage</b>
20	3.65%
25	3.95%
30	3.65%
35	3.45%
40	3.25%
45	3.15%
50+	3.05%

**Retirement Rates**

<b>Attained Age</b>	<b>Cash Balance Benefits</b>	<b>Traditional Benefits</b>
50	8.5%	1.5%
51	10.0%	1.7%
52	10.1%	1.9%
53	10.2%	2.0%
54	10.3%	2.0%
55	10.4%	3.5%
56	10.5%	3.5%
57	10.6%	3.5%
58	10.7%	3.5%
59	10.8%	5.0%
60	10.9%	5.0%
61	11.0%	20.0%
62	12.0%	35.0%
63	14.0%	25.0%
64	16.0%	25.0%
65	17.0%	35.0%
66	18.0%	30.0%
67	19.0%	50.0%
68	20.0%	50.0%
69	20.0%	50.0%
70+	100.0%	100.0%

**Funding Status and Progress**

Shands' actuarial accrued liability ("AAL") as of April 1, 2012 was approximately \$677,705,000. The actuarial value of the Plan assets available to pay these benefits at April 1, 2012 was approximately \$658,953,000, leaving a deficit as compared to the AAL of approximately \$18,752,000 at April 1, 2012. The AAL and the actuarial value of Plan net assets for the current year are based upon the April 1, 2012 actuarial valuation. The schedules of Plan funding progress, presented as required supplementary information ("RSI") following the notes to the consolidated basic financial statements, present multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AAL for benefits.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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The funded status of the Plan as of April 1, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL (Projected Unit Credit) (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
April 1, 2012	\$ 658,952,840	\$ 677,704,474	\$ 18,751,634	97.23%	\$ 361,028,469	5.19%

The present value of accumulated plan benefits is computed to measure the funds required as of the valuation date to provide in full the benefits earned to date by all Plan participants. As of April 1, 2012, the present value of accumulated Plan benefits was approximately \$673,529,000.

**Trend Information**

This information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The trend information for each of the last three fiscal years is as follows:

	April 1, 2012	April 1, 2011	July 1, 2010 (Unaudited)
Net assets available for benefits as a percentage of the AAL	97.23%	99.45%	95.74%
Unfunded actuarial accrued liability as a percentage of covered payroll	5.19%	0.88%	5.97%
Annual required contributions as a percentage of covered payroll	5.44%	6.63%	5.67%

Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. For the three fiscal years presented, contributions to the Plan were made in accordance with actuarially determined requirements.

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A summary of annual pension cost, contribution information, and the change in the net pension obligation for the last three fiscal years is as follows:

	2012	2011	2010 (Unaudited)
Annual required contribution	\$ 19,632,635	\$ 26,271,142	\$ 23,308,692
Interest on net pension obligation	(6,151,568)	(3,210,346)	(3,098,257)
Adjustment to annual required contribution	14,003,186	7,140,114	3,414,877
Annual pension cost	<u>27,484,253</u>	<u>30,200,910</u>	<u>23,625,312</u>
Contributions made by Shands	<u>(40,700,000)</u>	<u>(70,798,000)</u>	<u>(27,494,500)</u>
Decrease in net pension obligation	(13,215,747)	(40,597,090)	(3,869,188)
<b>Net pension (asset) obligation</b>			
Beginning of year	<u>(82,020,908)</u>	<u>(41,423,818)</u>	<u>(37,554,630)</u>
End of year	<u>\$ (95,236,655)</u>	<u>\$ (82,020,908)</u>	<u>\$ (41,423,818)</u>
Percentage of annual pension cost contributed	<u>148.1%</u>	<u>234.4%</u>	<u>116.4%</u>

The net pension asset of approximately \$95,237,000 and \$82,021,000 at June 30, 2012 and 2011, respectively, is included within other assets in the accompanying consolidated basic statements of net assets.

A summary of Plan assets as of June 30, 2012 and 2011 and of the changes in Plan assets for fiscal years 2012 and 2011 is as follows:

<i>(in thousands of dollars)</i>	2012	2011
<b>Statements of Plan Net Assets</b>		
Cash and short-term investments	<u>\$ 4,973</u>	<u>\$ 2,404</u>
Investments at fair value		
Domestic equity funds and securities	196,738	197,710
International equity funds and securities	186,142	192,593
Fixed income funds	159,447	157,332
High yield fund	52,608	50,884
Private equity	<u>31,593</u>	<u>27,667</u>
Total investments	<u>626,528</u>	<u>626,186</u>
Net assets held in trust for pension benefits	<u>\$ 631,501</u>	<u>\$ 628,590</u>

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
<b>Statements of Changes in Plan Net Assets</b>		
Beginning investment value of account	<u>\$ 628,590</u>	<u>\$ 467,433</u>
Receipts		
Employer contributions	40,700	70,798
Realized and unrealized gains (losses), net	(15,571)	105,385
Interest and dividends	<u>9,804</u>	<u>14,504</u>
Total receipts	<u>34,933</u>	<u>190,687</u>
Disbursements		
Benefit payments	28,066	25,243
Investment management and administrative fees	<u>3,956</u>	<u>4,287</u>
Total disbursements	<u>32,022</u>	<u>29,530</u>
Ending investment value of account	<u>\$ 631,501</u>	<u>\$ 628,590</u>

**9. Other Postemployment Benefits**

In addition to providing pension benefits, Shands provides certain health care benefits for approximately 1,139 eligible active and retired employees through the Shands HealthCare Health Plan ("Health Benefit Plan"). Many of Shands' employees may become eligible for those benefits if they reach retirement age while working for Shands.

The GASB requires state and local governmental employers to account for and report the annual cost of other postemployment benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The GASB's provisions may be applied prospectively and do not require governments to fund their OPEB plans. The actuarially determined cost for providing benefits to retirees and current employees during fiscal years 2012 and 2011 was approximately \$306,000 and \$323,000, respectively. This includes approximately (\$68,000) and \$146,000 of actual (contributions) payments and approximately \$374,000 and \$177,000 of additional expense recorded on the accrual basis during fiscal years 2012 and 2011, respectively.

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**Funding Policy**

The GASB does not require funding of the OPEB expense. The ARC is based on projected pay-as-you-go financing requirements, with an additional amount required to be recognized and accumulated as the net OPEB obligation. For fiscal years 2012 and 2011, Shands contributed approximately (\$68,000) and \$146,000, respectively, to the plan, which is net of retiree contributions. Retiree contributions for fiscal years 2012 and 2011 were approximately \$284,000 and \$263,000, respectively, according to the following table:

**Average annual retiree contributions  
(pre and post Medicare)**

	2012		2011	
	Retiree	Spouse/ Family	Retiree	Spouse/ Family
Preferred Plan	\$ 8,868	\$ 11,280	\$ 8,606	\$ 10,840
Basic Plan	6,410	8,015	6,221	7,695
Limited Plan	4,980	6,115	4,833	5,865

**Annual**

*OPEB Cost and Net OPEB Obligation* – Shands’ annual OPEB cost is calculated based on its ARC, an amount actuarially determined in accordance with the GASB parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over an 8 year period. The components of Shands’ annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Shands’ net OPEB obligation as of June 30, 2012 and 2011 are as follows:

	2012	2011
Annual required contribution	\$ 451,258	\$ 447,254
Interest on net OPEB obligation	65,469	63,100
Adjustment to annual required contribution	(211,101)	(187,846)
Annual OPEB cost	305,626	322,508
Contributions made	67,709	(146,133)
Increase in net OPEB obligation	373,335	176,375
<b>Net OPEB obligation</b>		
Beginning of year	1,378,289	1,201,914
End of year	\$ 1,751,624	\$ 1,378,289

Shands’ annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three fiscal years was as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 305,626	22.2%	\$ 1,751,624
June 30, 2011	322,508	45.3%	1,378,289
June 30, 2010 (unaudited)	437,721	-4.4%	1,201,914

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
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**Funded Status and Funding Progress**

As discussed above, the GASB does not require, and Shands has not funded, the AAL. As of April 1, 2012, the unfunded actuarial accrued liability ("UAAL") for benefits was approximately \$2,072,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$385,138,000 and the ratio of the UAAL to the covered payroll was 0.54%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the consolidated basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2012 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.30% discount rate, representing an estimate of the discount rate for an unfunded plan. The UAAL is being amortized as a level dollar base for a closed 8 year period.

The significant actuarial assumptions utilized in the most recent actuarial analysis are as follows:

Discount rate	4.30% per year
Retiree contribution increases	Retiree contribution increases are calculated so that the employer claim payments are capped at a 3% increase each year.
Health care cost trend rates	The trend rates of incurred claims represent the rate of increase in employer claims payments:
Medical Annual Rates of Increase	
Initial Trend Rate	7.50%
Ultimate Trend Rate	4.50%
Year that the rate reaches the ultimate trend rate	2028

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**10. Commitments and Contingencies**

**Lease Agreements**

Shands entered into a contractual agreement as of July 1, 1980 with the State Board of Education of the State of Florida (the "State Board of Education"), as subsequently restated and amended, which provides for the use of hospital facilities (buildings and improvements) of the patient care and clinical education unit of the J. Hillis Miller Health Center at the University of Florida (the "Health Center") through December 31, 2057, with renewal provisions. The contractual agreement also provided for the transfer to Shands of all other assets and liabilities arising from the operation of the Shands UF hospital facilities prior to July 1, 1980. At termination of the contractual agreement, the net assets of the Shands UF hospital facility revert to the State Board of Education. Legal title to all buildings and improvements transferred to Shands remains with the State of Florida during the term of the contractual agreement. The contractual agreement provides for a 12-month grace period for any event of default, other than the bankruptcy of Shands. In addition, the contractual agreement limits the right of the State Board of Education to terminate the contractual agreement solely to the circumstance when Shands declares bankruptcy and, in such event, requires net revenue derived from the operation of the hospital facilities to continue to be applied to the payment of Shands' debts.

Under the terms of the contractual agreement, Shands is obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the Health Center, which include the College of Medicine, and further agrees to contract with the State Board of Education for the provision of these programs.

In May 2010, Shands entered into an agreement to sell a 60% controlling interest in its three rural hospitals, Shands at Lake Shore, Shands Starke, and Shands Live Oak to HMA. The closing date of the sale was July 1, 2010. The lease agreement between Shands at Lake Shore and the Lake Shore Hospital Authority was amended effective July 1, 2010. Shands at Lake Shore assigned all of its interest in the lease to HMA Lakeshore, Inc. Under the terms of the amended lease agreement, Shands provides a 40% guaranty and HMA provides a 60% guaranty on the lease payments. Currently the monthly lease payments are \$41,233 and are subject to increases annually based upon the change in the Consumer Price Index. The lease expires June 30, 2040.

The following is a schedule, by year, of future minimum lease payments under capital and noncancelable operating leases together with the present value of net minimum capital lease payments as of June 30, 2012:

<i>(in thousands of dollars)</i>	<b>Capital Lease</b>	<b>Operating Leases</b>
<b>Years Ending</b>		
2013	\$ 940	\$ 4,908
2014	549	4,654
2015	-	3,424
2016	-	3,467
2017	-	2,868
Thereafter	-	10,950
Total minimum lease payments	1,489	\$ 30,271
Less: Amount representing interest	(43)	
Present value of net minimum lease payments	\$ 1,446	

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2012 and 2011**

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Operating lease expense for the rental of property and equipment for the years ended June 30, 2012 and 2011 was approximately \$5,632,000 and \$5,963,000, respectively. At June 30, 2012 and 2011, gross assets under capital leases included in capital assets was \$3,506,000. Accumulated amortization on capital leases as of June 30, 2012 and 2011 was approximately \$2,118,000 and \$1,242,000, respectively.

**Commitments**

Shands has contracts for the construction and remodeling of facilities and equipment purchases. As of June 30, 2012, the remaining commitment relating to these contracts was approximately \$38,892,000 (Note 5).

Shands has contracts for the maintenance of computer application software for its core operation systems. As of June 30, 2012, the remaining commitment relating to these contracts was approximately \$11,770,000.

**Professional Liabilities**

Shands participates with other health care providers in the University of Florida J. Hillis Miller Health Center Self-Insurance Program ("UFSIP"). UFSIP is an operating unit of the Board of Governors of the State of Florida ("FBOG"). UFSIP provides occurrence-based coverage to Shands. Insurance in excess of the coverage provided by UFSIP is provided by the University of Florida Healthcare Education Insurance Company ("UFHEIC"). UFHEIC is wholly-owned by FBOG. UFHEIC provides coverage to Shands 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 UFSIP and UFHEIC and Shands are not retrospectively rated. The costs incurred by Shands related to these policies are expensed in the period that coverage is provided.

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

Effective July 1, 2011, Shands was granted sovereign immunity (Note 2).

**Health Insurance**

Shands has a self-insurance plan for health and medical coverage for its employees. Amounts contributed by Shands and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expense related to the self-insured health and medical plan for the years ended June 30, 2012 and 2011 was approximately \$45,128,000 and \$39,652,000, respectively. The estimated claims incurred, payments on claims and the balance of the reserve for health insurance claims for the years ended June 30, 2012 and 2011 were as follows:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Amount of claims liabilities at the beginning of the year	\$ 7,593	\$ 12,502
Incurred claims	48,487	45,137
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(42,832)</u>	<u>(50,046)</u>
Amount of claims liabilities at the end of the year	<u>\$ 13,248</u>	<u>\$ 7,593</u>

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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#### **Workers' Compensation Insurance**

Shands is self-insured for workers' compensation up to \$600,000 and \$500,000 per occurrence for the years ended June 30, 2012 and 2011, respectively. Shands has purchased excess coverage from a commercial carrier up to the amount allowed by Florida Statutes. Total workers' compensation expenses for the years ended June 30, 2012 and 2011 were approximately \$595,000 and \$543,000, respectively.

#### **Litigation**

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

#### **11. Transactions with Related Parties**

Shands has various agreements for services provided by UF for support of the educational, clinical, and research activities of the College of Medicine, maintenance, security, utilities, and various services. Expenses related to these agreements were approximately \$142,884,000 and \$142,088,000 for the years ended June 30, 2012 and 2011, respectively, of which approximately \$40,744,000 and \$37,675,000 for the years ended June 30, 2012 and 2011, respectively, are transfers and expenditures in support of the University of Florida and its medical programs included under this caption in the accompanying consolidated basic statements of revenues, expenses and changes in net assets. At June 30, 2012 and 2011, approximately \$9,387,000 and \$5,566,000, respectively, was owed to UF under these agreements and is included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net assets.

Shands provides contracted services at cost to UF for support of the clinical and research activities of the College of Medicine, maintenance, utilities, telephone communication, and various other services. The amount credited against expenses for these contracted services was approximately \$60,945,000 and \$56,653,000 for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, approximately \$4,499,000 and \$2,068,000, respectively, was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net assets.

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Notes to Consolidated Basic Financial Statements

### June 30, 2012 and 2011

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Shands has an agreement with UF to provide billing services for emergency room physician fees. UF remits the collections to Shands on a monthly basis less an administrative fee. The amount collected by UF on Shands' behalf less the administrative fee for the years ended June 30, 2012 and 2011 was approximately \$7,104,000 and \$7,673,000, respectively. At June 30, 2012 and 2011, approximately \$531,000 and \$517,000, respectively, was owed to Shands and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net assets.

During 2010, Shands entered into an investment management agreement with UFICO to manage a portion of its investments. UFICO was created by the UF Trustees for the purpose of managing assets held by UF and its related corporations. As of June 30, 2012 and 2011, the fair value of investments managed by UFICO on Shands' behalf was approximately \$144,649,000 and \$193,733,000, respectively. Investment management fees of approximately \$206,000 and \$228,000 were incurred for the years ended June 30, 2012 and 2011, respectively.

Shands provides contracted services at cost to Shands Jacksonville Medical Center, Inc., a related party entity controlled by UF, for administrative and information services support services. The amount credited against expenses for these contracted services was approximately \$7,511,000 and \$5,712,000 for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, approximately \$2,671,000 and \$831,000, respectively, was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statements of net assets.

Shands Jacksonville provides organ procurement services to Shands. Expenses related to the organ procurement services were approximately \$500,000 and \$513,000 for the years ended June 30, 2012 and 2011, respectively.

At June 30, 2012 and 2011, Shands has a note receivable of approximately \$40,268,000 and \$41,635,000, respectively, due from Shands Jacksonville. 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 receivable of approximately \$1,431,000 and \$1,368,000 is included within prepaid expenses and other current assets and the long-term portion of the note receivable of approximately \$38,837,000 and \$40,267,000 at June 30, 2012 and 2011, respectively, is included within other assets in the accompanying consolidated basic statements of net assets.

During the past year, construction began in earnest on the 39<sup>th</sup> Avenue Medical Office Building ("MOB") which will provide additional clinical space for the Florida Clinical Practice Association ("FCPA"). During this time, Shands had performed as construction manager and approximately \$14.3 million in project costs are reflected in Shands' construction-in-progress (CIP) balance at June 30, 2012. The construction agreements were assigned to FCPA in June 2012 and their financing was in place as of August 2012. However, accounting treatment requires Shands to continue to reflect the MOB as a component of its CIP and any reimbursement received from FCPA for the benefit of this project is to be reflected as a liability until the project is concluded. Upon conclusion of the project, the building is expected to be conveyed in full to FCPA.

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Notes to Consolidated Basic Financial Statements**  
**June 30, 2012 and 2011**

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**12. Concentrations of Credit Risk**

Shands grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. Shands does not charge interest on accounts receivable. The composition of receivables from patients and third-party payors is as follows:

	<b>2012</b>	<b>2011</b>
Medicare	28.4%	26.2%
Medicaid	13.3%	13.6%
Other third-party payors	57.9%	59.8%
Patients	0.4%	0.4%
	<u>100.0%</u>	<u>100.0%</u>

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

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Schedule of Plan Funding Progress (Unaudited)**  
**July 1, 2007 Through June 30, 2012**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a) / (c)</b>
July 1, 2007	\$ 510,110,923	\$ 446,075,640	\$ (64,035,283)	114.4%	\$ 374,703,980	-17.1%
July 1, 2008	516,653,578	504,184,948	(12,468,630)	102.5%	393,947,017	-3.2%
July 1, 2009	506,841,837	535,105,649	28,263,812	94.7%	410,812,664	6.9%
July 1, 2010	551,570,055	576,104,670	24,534,615	95.7%	410,512,664	6.0%
April 1, 2011	625,296,308	628,781,832	3,485,524	99.4%	396,053,964	0.9%
April 1, 2012	658,952,840	677,704,474	18,751,634	97.2%	361,028,469	5.2%

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Historical Summary of Actual and Required Pension Contributions (Unaudited)**  
**July 1, 2006 Through June 30, 2012**

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<b>(Fiscal) Plan Year</b>	<b>Employer Contributions</b>		
	<b>Annual Required Contribution</b>	<b>Annual Contributions Made by Shands</b>	<b>Percentage Contributed</b>
July 1, 2006 to June 30, 2007	\$ 18,877,847	\$ 29,647,500	157.2%
July 1, 2007 to June 30, 2008	14,410,886	25,735,000	178.6%
July 1, 2008 to June 30, 2009	20,129,673	21,992,500	109.3%
July 1, 2009 to June 30, 2010	23,308,692	27,494,500	118.0%
July 1, 2010 to June 30, 2011	26,271,142	70,798,000	269.5%
July 1, 2011 to June 30, 2012	19,632,635	40,700,000	207.3%

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Historical Summary of Actual and Required Other Postemployment Contributions**  
**Under GASB Statement No. 45 (Unaudited)**  
**July 1, 2009 Through June 30, 2012**

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<b>(Fiscal) Plan Year</b>	<b>Employer Contributions</b>		
	<b>Annual Required Contribution</b>	<b>Actual Contributions, Net of Retiree Contributions</b>	<b>Percentage Contributed</b>
July 1, 2009 to June 30, 2010	\$ 448,460	\$ (19,327)	-4.3%
July 1, 2010 to June 30, 2011	447,254	146,133	32.7%
July 1, 2011 to June 30, 2012	451,258	(67,709)	-15.0%

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidating Basic Statements of Net Assets

### June 30, 2012

(in thousands of dollars)

	Shands UF	Shands AGH	Shands Vista	Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	Shands Home Care	Property Management	Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Shands at Lake Shore	Other	Eliminations	Consolidated Total	
<b>Assets</b>																		
<b>Current assets</b>																		
Cash and cash equivalents	\$ 18,723	\$ -	\$ 1	\$ -	\$ -	\$ 18,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,724	\$ -	\$ 5,336	\$ -	\$ 24,060	
Short-term investments	128,665	-	-	-	-	128,665	-	-	-	-	-	-	128,665	-	13	-	128,678	
Patient accounts receivable, net	139,771	-	4,461	3,121	-	147,353	1,052	-	-	-	1,052	-	148,405	-	3	-	148,408	
Inventories	12,734	-	-	-	-	12,734	-	-	-	-	-	-	12,734	-	-	-	12,734	
Prepaid expenses and other current assets	49,544	-	767	212	(142)	50,381	562	2	-	-	564	-	50,945	20	473	-	51,438	
Assets whose use is restricted, current portion	18,186	-	-	-	-	18,186	-	-	-	-	-	-	18,186	-	-	-	18,186	
<b>Total current assets</b>	<b>367,623</b>	<b>-</b>	<b>5,229</b>	<b>3,333</b>	<b>(142)</b>	<b>376,043</b>	<b>1,614</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>1,616</b>	<b>-</b>	<b>377,659</b>	<b>20</b>	<b>5,825</b>	<b>-</b>	<b>383,504</b>	
<b>Assets whose use is restricted, less current portion</b>																		
Capital assets, net	175,711	-	-	-	-	175,711	-	-	-	-	-	-	175,711	-	20	-	175,731	
Due from affiliates, net	693,116	1,666	8,608	2,177	-	705,567	163	13,914	-	-	14,077	-	719,644	-	1,525	-	721,169	
Other assets	4,699	-	-	-	-	4,699	-	-	-	-	-	-	4,699	-	-	(4,699)	-	
<b>Total assets</b>	<b>\$ 1,497,928</b>	<b>\$ 1,667</b>	<b>\$ 17,448</b>	<b>\$ 8,177</b>	<b>\$ (142)</b>	<b>\$ 1,525,078</b>	<b>\$ 2,910</b>	<b>\$ 13,915</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,825</b>	<b>\$ -</b>	<b>\$ 1,541,903</b>	<b>\$ 20</b>	<b>\$ 19,851</b>	<b>\$ (4,699)</b>	<b>\$ 1,557,075</b>	
<b>Liabilities and Net Assets</b>																		
<b>Current liabilities</b>																		
Long-term debt, current portion	\$ 19,848	\$ -	\$ -	\$ -	\$ -	\$ 19,848	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,848	\$ -	\$ -	\$ -	\$ 19,848	
Capital lease obligations, current portion	904	-	-	-	-	904	-	-	-	-	-	-	904	-	-	-	904	
Accounts payable and accrued expenses	66,098	16	625	322	-	67,061	606	121	23	23	773	-	67,834	90	1,424	-	69,348	
Accrued salaries and leave payable	39,529	-	69	39	-	39,637	11	-	-	-	11	-	39,648	-	16	-	39,664	
Estimated third-party payor settlements	55,166	-	496	-	(142)	55,520	-	-	273	101	374	-	55,894	603	-	-	56,497	
<b>Total current liabilities</b>	<b>181,545</b>	<b>16</b>	<b>1,190</b>	<b>361</b>	<b>(142)</b>	<b>182,970</b>	<b>617</b>	<b>121</b>	<b>296</b>	<b>124</b>	<b>1,158</b>	<b>-</b>	<b>184,128</b>	<b>693</b>	<b>1,440</b>	<b>-</b>	<b>186,261</b>	
<b>Long-term liabilities</b>																		
Long-term debt, noncurrent portion	467,651	-	-	-	-	467,651	-	-	-	-	-	-	467,651	-	-	-	467,651	
Capital lease obligations, noncurrent portion	542	-	-	-	-	542	-	-	-	-	-	-	542	-	-	-	542	
Due to affiliates, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,699	(4,699)	-	
Other liabilities	87,202	-	50	26	-	87,278	21	-	-	-	21	-	87,299	-	-	-	87,299	
<b>Total long-term liabilities</b>	<b>555,395</b>	<b>-</b>	<b>50</b>	<b>26</b>	<b>-</b>	<b>555,471</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>-</b>	<b>555,492</b>	<b>-</b>	<b>4,699</b>	<b>(4,699)</b>	<b>555,492</b>	
<b>Total liabilities</b>	<b>736,940</b>	<b>16</b>	<b>1,240</b>	<b>387</b>	<b>(142)</b>	<b>738,441</b>	<b>638</b>	<b>121</b>	<b>296</b>	<b>124</b>	<b>1,179</b>	<b>-</b>	<b>739,620</b>	<b>693</b>	<b>6,139</b>	<b>(4,699)</b>	<b>741,753</b>	
<b>Net assets</b>																		
Invested in capital assets, net of related debt	207,861	1,667	8,608	2,177	-	220,313	163	13,914	-	-	14,077	-	234,390	-	-	-	234,390	
<b>Restricted</b>																		
Nonexpendable	97	-	-	-	-	97	-	-	-	-	-	-	97	-	-	-	97	
Expendable	8,476	-	-	-	-	8,476	-	-	-	-	-	-	8,476	-	274	-	8,750	
<b>Unrestricted</b>																		
544,554	(16)	7,600	5,613	-	557,751	2,109	(120)	(296)	(124)	1,569	-	-	559,320	(673)	13,438	-	572,085	
<b>Total net assets</b>	<b>760,988</b>	<b>1,651</b>	<b>16,208</b>	<b>7,790</b>	<b>-</b>	<b>786,637</b>	<b>2,272</b>	<b>13,794</b>	<b>(296)</b>	<b>(124)</b>	<b>15,646</b>	<b>-</b>	<b>802,283</b>	<b>(673)</b>	<b>13,712</b>	<b>-</b>	<b>815,322</b>	
<b>Total liabilities and net assets</b>	<b>\$ 1,497,928</b>	<b>\$ 1,667</b>	<b>\$ 17,448</b>	<b>\$ 8,177</b>	<b>\$ (142)</b>	<b>\$ 1,525,078</b>	<b>\$ 2,910</b>	<b>\$ 13,915</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,825</b>	<b>\$ -</b>	<b>\$ 1,541,903</b>	<b>\$ 20</b>	<b>\$ 19,851</b>	<b>\$ (4,699)</b>	<b>\$ 1,557,075</b>	

**Shands Teaching Hospital and Clinics, Inc. and Subsidiaries**  
**Consolidating Basic Statements of Net Assets**  
**June 30, 2011**

(in thousands of dollars)

	Shands UF	Shands AGH	Shands Vista	Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	Shands Home Care	Property Management	Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Shands at Lake Shore	Other	Eliminations	Consolidated Total	
<b>Assets</b>																		
Current assets																		
Cash and cash equivalents	\$ 14,093	\$ -	\$ 1	\$ -	\$ -	\$ 14,094	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,094	\$ -	\$ 3,700	\$ -	\$ 17,794	
Short-term investments	108,929	-	-	-	-	108,929	-	-	-	-	-	-	108,929	-	13	-	108,942	
Patient accounts receivable, net	104,572	-	4,217	2,318	-	111,107	1,044	-	-	-	1,044	-	112,151	193	-	-	112,344	
Inventories	13,001	-	-	-	-	13,001	-	-	-	-	-	-	13,001	-	-	-	13,001	
Prepaid expenses and other current assets	36,499	4	717	568	(498)	37,290	596	6	-	-	602	-	37,892	37	380	-	38,309	
Assets whose use is restricted, current portion	20,311	-	-	-	-	20,311	-	-	-	-	-	-	20,311	-	-	-	20,311	
Total current assets	297,405	4	4,935	2,886	(498)	304,732	1,640	6	-	-	1,646	-	306,378	230	4,093	-	310,701	
Assets whose use is restricted, less current portion	201,814	-	-	-	-	201,814	-	-	-	-	-	-	201,814	-	-	-	201,814	
Capital assets, net	704,082	1,666	8,106	2,344	-	716,198	215	14,530	-	-	14,745	-	730,943	-	1,525	-	732,468	
Due from affiliates, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,003	(3,003)	-	
Other assets	177,629	-	3,250	2,490	-	183,369	981	-	-	-	981	-	184,350	-	13,246	-	197,596	
Total assets	\$ 1,380,930	\$ 1,670	\$ 16,291	\$ 7,720	\$ (498)	\$ 1,406,113	\$ 2,836	\$ 14,536	\$ -	\$ -	\$ 17,372	\$ -	\$ 1,423,485	\$ 230	\$ 21,867	\$ (3,003)	\$ 1,442,579	
<b>Liabilities and Net Assets</b>																		
Current liabilities																		
Long-term debt, current portion	\$ 20,834	\$ -	\$ -	\$ -	\$ -	\$ 20,834	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,834	\$ -	\$ -	\$ -	\$ 20,834	
Capital lease obligations, current portion	873	-	-	-	-	873	-	-	-	-	-	-	873	-	-	-	873	
Accounts payable and accrued expenses	54,782	26	532	319	-	55,659	665	98	138	112	1,013	-	56,672	283	1,322	-	58,277	
Accrued salaries and leave payable	49,737	-	69	39	-	49,845	11	-	-	-	11	-	49,856	-	26	-	49,882	
Estimated third-party payor settlements	62,278	1,062	417	-	(498)	63,259	-	-	410	250	660	-	63,919	877	-	-	64,796	
Total current liabilities	188,504	1,088	1,018	358	(498)	190,470	676	98	548	362	1,684	-	192,154	1,160	1,348	-	194,662	
Long-term liabilities																		
Long-term debt, noncurrent portion	477,839	-	-	-	-	477,839	-	-	-	-	-	-	477,839	-	-	-	477,839	
Capital lease obligations, noncurrent portion	1,447	-	-	-	-	1,447	-	-	-	-	-	-	1,447	-	-	-	1,447	
Due to affiliates, net	2,696	-	-	-	-	2,696	-	-	-	-	-	-	2,696	-	307	(3,003)	-	
Other liabilities	37,583	-	39	21	-	37,643	17	-	-	-	17	-	37,660	-	-	-	37,660	
Total long-term liabilities	519,565	-	39	21	-	519,625	17	-	-	-	17	-	519,642	-	307	(3,003)	516,946	
Total liabilities	708,069	1,088	1,057	379	(498)	710,095	693	98	548	362	1,701	-	711,796	1,160	1,655	(3,003)	711,608	
Net assets																		
Invested in capital assets, net of related debt	207,074	1,667	8,106	2,344	-	219,191	215	14,530	-	-	14,745	-	233,936	-	-	-	233,936	
Restricted																		
Nonexpendable	97	-	-	-	-	97	-	-	-	-	-	-	97	-	-	-	97	
Expendable	5,518	-	-	-	-	5,518	-	-	-	-	-	-	5,518	-	166	-	5,684	
Unrestricted																		
460,172	(1,085)	7,128	4,997	-	471,212	1,928	(92)	(548)	(362)	926	-	-	472,138	(930)	20,046	-	491,254	
Total net assets	672,861	582	15,234	7,341	-	696,018	2,143	14,438	(548)	(362)	15,671	-	711,689	(930)	20,212	-	730,971	
Total liabilities and net assets	\$ 1,380,930	\$ 1,670	\$ 16,291	\$ 7,720	\$ (498)	\$ 1,406,113	\$ 2,836	\$ 14,536	\$ -	\$ -	\$ 17,372	\$ -	\$ 1,423,485	\$ 230	\$ 21,867	\$ (3,003)	\$ 1,442,579	

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidating Basic Statements of Revenues, Expenses and Changes in Net Assets

### Year Ended June 30, 2012

(in thousands of dollars)

	Shands UF	Shands AGH	Shands Vista	Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	Shands Home Care	Property Management	Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Shands at Lake Shore	Other	Eliminations	Consolidated Total
<b>Operating revenues</b>																	
Net patient service revenue, net of provision for bad debts of \$97,310	\$ 1,009,353	\$ 1,040	\$ 25,969	\$ 17,593	\$ (429)	\$ 1,053,526	\$ 6,674	\$ -	\$ 231	\$ (9)	\$ 6,896	\$ -	\$ 1,060,422	\$ 146	\$ -	\$ -	\$ 1,060,568
Other operating revenue	22,169	-	188	-	-	22,357	-	1,749	-	3	1,752	(966)	23,143	-	2,702	(247)	25,598
Total operating revenues	1,031,522	1,040	26,157	17,593	(429)	1,075,883	6,674	1,749	231	(6)	8,648	(966)	1,083,565	146	2,702	(247)	1,086,166
<b>Operating expenses</b>																	
Salaries and benefits	447,121	(24)	15,256	10,329	1,082	473,764	4,989	-	(2)	(1)	4,986	-	478,750	33	1,034	-	479,817
Supplies and services	426,924	(130)	6,210	4,178	(1,511)	435,671	1,527	1,432	224	205	3,388	(966)	438,093	234	1,595	(247)	439,675
Depreciation and amortization	50,911	-	525	251	-	51,687	53	611	-	-	664	-	52,351	-	-	-	52,351
Total operating expenses	924,956	(154)	21,991	14,758	(429)	961,122	6,569	2,043	222	204	9,038	(966)	969,194	267	2,629	(247)	971,843
Operating income (loss)	106,566	1,194	4,166	2,835	-	114,761	105	(294)	9	(210)	(390)	-	114,371	(121)	73	-	114,323
<b>Nonoperating revenues (expenses)</b>																	
State appropriations	4,000	-	-	-	-	4,000	-	-	-	-	-	-	4,000	-	-	-	4,000
Interest expense	(15,999)	-	-	-	-	(15,999)	-	-	-	-	-	-	(15,999)	-	-	-	(15,999)
Net investment income, including change in fair value	11,536	-	-	-	-	11,536	-	-	-	-	-	-	11,536	-	68	-	11,604
Gain (loss) on disposal of capital assets, net	555	-	-	-	-	555	-	-	-	-	-	-	555	-	-	-	555
Other nonoperating revenues (expenses)	6,420	2	105	-	-	6,527	-	166	-	-	166	-	6,693	-	(760)	-	5,933
Total nonoperating revenues (expenses), net	6,512	2	105	-	-	6,619	-	166	-	-	166	-	6,785	-	(692)	-	6,093
Excess (deficit) of revenues over expenses before transfers, capital contributions, changes in fair value of hedging derivative instruments, and other changes in net assets	\$ 113,078	\$ 1,196	\$ 4,271	\$ 2,835	\$ -	\$ 121,380	\$ 105	\$ (128)	\$ 9	\$ (210)	\$ (224)	\$ -	\$ 121,156	\$ (121)	\$ (619)	\$ -	\$ 120,416

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidating Basic Statements of Revenues, Expenses and Changes in Net Assets

### Year Ended June 30, 2012

(in thousands of dollars)

	Shands UF	Shands AGH	Shands Vista	Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	Shands Home Care	Property Management	Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Shands at Lake Shore	Other	Eliminations	Consolidated Total
Excess (deficit) of revenues over expenses before transfers, capital contributions, changes in fair value of hedging derivative instruments, and other changes in net assets	\$ 113,078	\$ 1,196	\$ 4,271	\$ 2,835	\$ -	\$121,380	\$ 105	\$ (128)	\$ 9	\$ (210)	\$ (224)	\$ -	\$ 121,156	\$ (121)	\$ (619)	\$ -	\$ 120,416
Capital contributions	1,612	-	-	-	-	1,612	-	-	-	-	-	-	1,612	-	-	-	1,612
Transfers and expenditures in support of the University of Florida and its medical programs	(40,744)	-	-	-	-	(40,744)	-	-	-	-	-	-	(40,744)	-	-	-	(40,744)
Transfer of net assets in association with consolidation and support of other operations and divisions of Shands	11,222	(127)	(3,297)	(2,386)	-	5,412	24	(516)	243	448	199	-	5,611	378	(5,989)	-	-
Other changes in net assets	2,959	-	-	-	-	2,959	-	-	-	-	-	-	2,959	-	108	-	3,067
Increase (decrease) in net assets	88,127	1,069	974	449	-	90,619	129	(644)	252	238	(25)	-	90,594	257	(6,500)	-	84,351
<b>Net assets</b>																	
Beginning of year	672,861	582	15,234	7,341	-	696,018	2,143	14,438	(548)	(362)	15,671	-	711,689	(930)	20,212	-	730,971
End of year	\$ 760,988	\$ 1,651	\$ 16,208	\$ 7,790	\$ -	\$786,637	\$ 2,272	\$ 13,794	\$ (296)	\$ (124)	\$ 15,646	\$ -	\$ 802,283	\$ (673)	\$ 13,712	\$ -	\$ 815,322

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidating Basic Statements of Revenues, Expenses and Changes in Net Assets

### Year Ended June 30, 2011

(in thousands of dollars)

	Shands UF	Shands AGH	Shands Vista	Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	Shands Home Care	Property Management	Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Shands at Lake Shore	Other	Eliminations	Consolidated Total
<b>Operating revenues</b>																	
Net patient service revenue, net of provision for bad debts of \$85,176	\$ 912,868	\$ 1,592	\$ 22,319	\$ 15,918	\$ (393)	\$ 952,304	\$ 6,975	\$ -	\$ 46	\$ 233	\$ 7,254	\$ -	\$ 959,558	\$ 786	\$ -	\$ -	\$ 960,344
Other operating revenue	14,182	-	71	21	-	14,274	-	1,713	8	6	1,727	(993)	15,008	5	2,615	(245)	17,383
Total operating revenues	927,050	1,592	22,390	15,939	(393)	966,578	6,975	1,713	54	239	8,981	(993)	974,566	791	2,615	(245)	977,727
<b>Operating expenses</b>																	
Salaries and benefits	432,138	-	13,856	9,481	956	456,431	5,210	-	29	55	5,294	-	461,725	1	1,013	-	462,739
Supplies and services	408,406	1,284	5,377	3,585	(1,349)	417,303	1,492	1,387	656	541	4,076	(993)	420,386	1,810	1,923	(245)	423,874
Depreciation and amortization	50,433	-	566	268	-	51,267	52	629	-	-	681	-	51,948	-	-	-	51,948
Total operating expenses	890,977	1,284	19,799	13,334	(393)	925,001	6,754	2,016	685	596	10,051	(993)	934,059	1,811	2,936	(245)	938,561
Operating income (loss)	36,073	308	2,591	2,605	-	41,577	221	(303)	(631)	(357)	(1,070)	-	40,507	(1,020)	(321)	-	39,166
<b>Nonoperating revenues (expenses)</b>																	
State appropriations	7,500	-	-	-	-	7,500	-	-	-	-	-	-	7,500	-	-	-	7,500
Interest expense	(16,860)	-	-	-	-	(16,860)	-	-	-	-	-	-	(16,860)	-	-	-	(16,860)
Net investment income, including change in fair value	37,009	3	-	-	-	37,012	-	-	-	-	-	-	37,012	-	39	-	37,051
Gain (loss) on disposal of capital assets, net	(676)	10	-	-	-	(666)	(4)	(5)	306	78	375	-	(291)	4,327	1	-	4,037
Other nonoperating revenues	5,734	-	59	-	-	5,793	-	-	(7)	3	(4)	-	5,789	-	(1,685)	-	4,104
Total nonoperating revenues, net	32,707	13	59	-	-	32,779	(4)	(5)	299	81	371	-	33,150	4,327	(1,645)	-	35,832
Excess (deficit) of revenues over expenses before transfers, capital contributions, changes in fair value of hedging derivative instruments, and other changes in net assets	\$ 68,780	\$ 321	\$ 2,650	\$ 2,605	\$ -	\$ 74,356	\$ 217	\$ (308)	\$ (332)	\$ (276)	\$ (699)	\$ -	\$ 73,657	\$ 3,307	\$ (1,966)	\$ -	\$ 74,998

# Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

## Consolidating Basic Statements of Revenues, Expenses and Changes in Net Assets

### Year Ended June 30, 2011

(in thousands of dollars)

	Shands UF	Shands AGH	Shands Vista	Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	Shands Home Care	Property Management	Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Shands at Lake Shore	Other	Eliminations	Consolidated Total
Excess (deficit) of revenues over expenses before transfers, capital contributions, changes in fair value of hedging derivative instruments, and other changes in net assets	\$ 68,780	\$ 321	\$ 2,650	\$ 2,605	\$ -	\$ 74,356	\$ 217	\$ (308)	\$ (332)	\$ (276)	\$ (699)	\$ -	\$ 73,657	\$ 3,307	\$ (1,966)	\$ -	\$ 74,998
Capital contributions	674	-	-	-	-	674	-	-	-	-	-	-	674	-	-	-	674
Transfers and expenditures in support of the University of Florida and its medical programs	(37,675)	-	-	-	-	(37,675)	-	-	-	-	-	-	(37,675)	-	-	-	(37,675)
Change in accounting treatment of effective derivative instruments and change in fair value of hedging derivative instruments	39,649	-	-	-	-	39,649	-	-	-	-	-	-	39,649	-	-	-	39,649
Transfer of net assets in association with consolidation and support of other operations and divisions of Shands	(67,722)	2,844	46,068	23,779	-	4,969	2,335	10,321	(14,537)	(5,937)	(7,818)	-	(2,849)	(12,159)	15,008	-	-
Shands Jacksonville note receivable	42,276	-	-	-	-	42,276	-	-	-	-	-	-	42,276	-	-	-	42,276
Other changes in net assets	1,728	-	-	-	-	1,728	-	-	(99)	-	(99)	-	1,629	-	85	-	1,714
Increase (decrease) in net assets	47,710	3,165	48,718	26,384	-	125,977	2,552	10,013	(14,968)	(6,213)	(8,616)	-	117,361	(8,852)	13,127	-	121,636
<b>Net assets</b>																	
Beginning of year	625,151	(2,583)	(33,484)	(19,043)	-	570,041	(409)	4,425	14,420	5,851	24,287	-	594,328	7,922	7,085	-	609,335
End of year	\$ 672,861	\$ 582	\$ 15,234	\$ 7,341	\$ -	\$ 696,018	\$ 2,143	\$ 14,438	\$ (548)	\$ (362)	\$ 15,671	\$ -	\$ 711,689	\$ (930)	\$ 20,212	\$ -	\$ 730,971