

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

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June 30, 2011

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Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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, 2011, and for the fiscal year then ended. Please read this analysis in conjunction with the consolidated basic financial statements, which follow this section.

Introduction

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries includes the following:

Shands UF, 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, an inpatient psychiatric and substance abuse facility licensed to operate 81 beds, of which 57 are psychiatric and 24 are substance abuse.

Shands Rehab Hospital, 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.

ElderCare of Alachua County, Inc. provides social and health care support to the elderly in Alachua County, Florida.

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 County and certain contiguous counties.

In November 2009, Shands AGH, an acute care community hospital located in Gainesville, Florida, was closed and its services consolidated into Shands UF.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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 the University of Florida. 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.

After reassessing its articles of incorporation and bylaws, Shands determined that it meets the definition of a governmental entity and thus adopted Governmental Accounting Standards Board ("GASB") financial reporting. Previously, Shands utilized Financial Accounting Standards Board ("FASB") financial reporting. The primary consolidated basic financial statement items affected by the change in accounting treatment are derivatives, pension liabilities, postemployment benefits, and related effects to net assets. Due to the differences in accounting treatment and presentation of results, it is management's determination that it is not practical to present the consolidated basic financial statements reflecting prior year comparative information.

As such, Shands is presenting financial results as of June 30, 2011 and the fiscal year then ended in single-year format. Management will make reference in its discussion and analysis to certain financial results and statistics from the prior year not impacted by the GASB to FASB conversion. Comparative analysis will be presented in future years' consolidated basic financial statements.

This section of Shands' financial statements presents analysis of the financial condition, the results of operations and cash flows of Shands as of June 30, 2011 and for the fiscal year then ended. Along with the information in this report, the notes to the consolidated basic financial statements should be used to provide additional information that is essential for a full understanding of the consolidated basic financial statements.

Overview of the 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.

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.

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

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	399,410
Total assets	<u>\$ 1,442,579</u>
Current liabilities	\$ 194,662
Long-term liabilities	516,946
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	491,254
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.

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.

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

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	<u>1,714</u>
Increase in net assets	<u>\$ 121,636</u>

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

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
In-Patient Admissions				
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
Out-Patient Visits				
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, 2011

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, 2011

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 statement of net assets and the related consolidated basic statement 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, 2011, and the changes in its net assets and its cash flows for the year 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 audit. We conducted our audit 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 audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated basic financial statements, Shands has restated its 2010 financial statements to correct an error as the prior year financial statements were prepared under Financial Accounting Standards Board standards and not Governmental Accounting Standards Board standards. As the prior period financial statements have not been presented herein, the restatement has been effected as an adjustment to the opening net asset balance as of July 1, 2010.

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 Management's Discussion and Analysis ("MD&A") for the year ended June 30, 2011, the Schedule of Plan Funding Progress as of July 1, 2006 through March 31, 2011 (Unaudited), the Historical Summary of Actual and Required Pension Contributions as of July 1, 2005 through June 30, 2011 (Unaudited), and the Historical Summary of Actual and Required Other Postemployment Contributions under GASB Statement No. 45 as of July 1, 2008 through June 30, 2011 (Unaudited), as listed in the index, are not a required part of the consolidated basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position and results of its operations and changes in net assets of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated basic financial statements taken as a whole.

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September 30, 2011

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

(in thousands of dollars)

Assets

Current assets	
Cash and cash equivalents	\$ 17,794
Short-term investments	108,942
Patient accounts receivable, net of allowance for uncollectibles of \$35,557	112,344
Inventories	13,001
Prepaid expenses and other current assets	38,309
Assets whose use is restricted, current portion	20,311
Total current assets	<u>310,701</u>
Assets whose use is restricted, less current portion	201,814
Capital assets, net	732,468
Other assets	197,596
Total assets	<u>\$ 1,442,579</u>

Liabilities and Net Assets

Current liabilities	
Long-term debt, current portion	\$ 20,834
Capital lease obligations, current portion	873
Accounts payable and accrued expenses	58,277
Accrued salaries and leave payable	49,882
Estimated third-party payor settlements	64,796
Total current liabilities	<u>194,662</u>
Long-term liabilities	
Long-term debt, noncurrent portion	477,839
Capital lease obligations, noncurrent portion	1,447
Other liabilities	37,660
Total long-term liabilities	<u>516,946</u>
Total liabilities	<u>711,608</u>
Commitments and contingencies	
Net assets	
Invested in capital assets, net of related debt	233,936
Restricted	
Nonexpendable	97
Expendable	5,684
Unrestricted	491,254
Total net assets	<u>730,971</u>
Total liabilities and net assets	<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 Statement of Revenues, Expenses and Changes in Net
Assets
Year Ended June 30, 2011

(in thousands of dollars)

Operating revenues

Net patient service revenue, net of provision for bad debts of \$85,176	\$ 960,344
Other operating revenue	17,383
Total operating revenues	<u>977,727</u>

Operating expenses

Salaries and benefits	462,739
Supplies and services	423,874
Depreciation and amortization	51,948
Total operating expenses	<u>938,561</u>
Operating income	<u>39,166</u>

Nonoperating revenues (expenses)

State appropriations	7,500
Interest expense	(16,860)
Net investment income, including change in fair value	37,051
Gain on disposal of capital assets, net	4,037
Other nonoperating revenues	4,104
Total nonoperating revenues, net	<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>\$ 74,998</u>
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The accompanying notes are an integral part of these consolidated basic financial statements.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statement of Revenues, Expenses and Changes in Net
Assets
Year Ended June 30, 2011

(in thousands of dollars)

Excess of revenues over expenses before transfers, capital contributions, changes in fair value of hedging derivative instruments, and other changes in net assets	\$ 74,998
Capital contributions	674
Transfers and 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>
Net assets	
Beginning of year, as restated (Note 2)	<u>609,335</u>
End of year	<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 Statement of Cash Flows
Year Ended June 30, 2011

(in thousands of dollars)

Cash flows from operating activities	
Cash received from patients and third-party payors	\$ 965,769
Other receipts from operations	14,335
Salaries and benefits paid to employees	(506,511)
Payments to suppliers and vendors	(414,142)
Net cash provided by operating activities	<u>59,451</u>
Cash flows from noncapital financing activities	
Payments received on notes receivable	1,609
Payments in support of the University of Florida and its medical programs	(37,399)
Donations and pledge receipts	4,108
Net cash used in noncapital financing activities	<u>(31,682)</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(58,044)
Proceeds from sale of capital assets	35,252
Payments of long-term debt and capital lease obligations	(17,715)
Interest paid	(17,570)
Capital contributions	640
Net cash used in capital and related financing activities	<u>(57,437)</u>
Cash flows from investing activities	
Investment income received	5,856
Interest in joint venture	(14,117)
Purchase of short-term investments and assets whose use is restricted	(163,110)
Sale of short-term investments and assets whose use is restricted	194,306
Termination portion of the 2008A fixed rate payer interest rate swap	(3,357)
Other investing activity	407
Net cash provided by investing activities	<u>19,985</u>
Net decrease in cash and cash equivalents	(9,683)
Cash and cash equivalents	
Beginning of year	<u>27,477</u>
End of year	<u>\$ 17,794</u>
Supplemental noncash investing, capital and financing activities	
Shands Jacksonville note receivable (Note 11)	\$ 42,276
Capital assets financed through installment debt	8,350

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Basic Statement of Cash Flows
Year Ended June 30, 2011

(in thousands of dollars)

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 39,166
Adjustments to operating income to net cash provided by operating activities	
Depreciation and amortization	51,948
Provision for bad debts	85,176
Changes in:	
Patient accounts receivable	(75,191)
Prepaid expenses and other current assets	9,924
Inventory	(959)
Other assets	(4,971)
Accounts payable and accrued expenses	2,690
Accrued salaries and leave payable	(1,645)
Estimated third-party payor settlements	(4,560)
Other liabilities	(42,127)
Total adjustments	<u>20,285</u>
Net cash provided by operating activities	<u>\$ 59,451</u>

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, 2011

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 57 are psychiatric and 24 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 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 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 and certain contiguous counties.

In November 2009, Shands AGH, an acute care community hospital located in Gainesville, Florida, was closed and its services consolidated into Shands UF.

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

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.

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 the University of Florida. 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:

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.

After reassessing its articles of incorporation and bylaws, Shands determined that it meets the definition of a governmental entity and thus, should apply generally accepted accounting principles applicable to governmental entities. 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

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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
- 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.

Beginning net assets have been restated for adoption of GASB pronouncements. The primary consolidated basic financial statement items affected by the adoption were short-term investments, derivatives, pension liabilities, and other postemployment benefits.

The adjustment to net assets at July 1, 2010 was as follows:

(in thousands of dollars)

Net assets at June 30, 2010 (unadjusted)	\$ 302,070
Increase in fair value of short-term investments	1,213
Decrease in fair value of derivative instruments	(2,996)
Decrease in pension liability	308,345
Decrease in other postemployment liability	703
Change in net assets	<u>307,265</u>
Net assets at July 1, 2010, as restated	<u>\$ 609,335</u>

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.

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Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with maturities of three months or less when purchased, except those classified as assets whose use is restricted in the accompanying consolidated basic financial statements.

Investments

Investments 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 statement 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, 2011, these equity investments in hedge funds and private equity make up approximately 6% and 1%, respectively, of total investments in the accompanying consolidated basic statement of net assets. Because private equity and hedge funds are not readily marketable, their estimated value is subject to uncertainty 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 statement 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 statement of net assets. The long-term portion of pledges receivable are reported in other assets in the accompanying consolidated basic statement of net assets. Pledge discount rates range from 3% - 7% and are generally due in five years or greater.

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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 statement 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, 2011, and is included in other assets in the accompanying consolidated basic statement 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 year ended June 30, 2011.

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 Health Management Associates, Inc. ("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 statement of revenues, expenses and changes in net assets. Shands accounts for the investment under the equity method of accounting. The investment was approximately \$12,823,000, which was recorded in other assets in the accompanying consolidated basic statement of net assets at June 30, 2011. The investment loss of approximately \$1,545,000 was recorded in other nonoperating revenues in the accompanying consolidated basic statement of revenues, expenses and changes in net assets for the year ended June 30, 2011.

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 \$320,000 was recorded for the year ending June 30, 2011 and unamortized bond costs at June 30, 2011 of approximately \$2,461,000 was recorded in other assets in the accompanying consolidated basic statement 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 full.

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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 \$498,673,000 at June 30, 2011. The fair value is approximately \$461,280,000 at June 30, 2011.

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.

Operating Revenues and Expenses

Shands' consolidated basic statement of revenues, expenses and changes in net assets distinguishes 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 year ended June 30, 2011, net patient service revenue increased approximately \$13,676,000 due to such adjustments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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Medicare

Shands participates in the federal Medicare program ("Medicare"). Approximately 31% of Shands' net patient service revenue in fiscal year 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, 2011, 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 statement of net assets.

Medicaid

Approximately 22% of Shands' net patient service revenue for fiscal year 2011 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 settlement determined after submission of annual cost reports by Shands, and audits by the Medicaid fiscal intermediary. 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 statement of revenue, 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 in 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 statement 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.

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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 in 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 increase 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 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 statement 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 statement of revenues, expenses and changes in net assets.

Future 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 did not adopt GASB No. 63 for the year ended June 30, 2011.

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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. Shands did not adopt GASB No. 64 for the year ended June 30, 2011.

3. **Un-sponsored Community Benefit**

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

Community benefit categories include financial assistance, community health services, health professions education, research, and donations. 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 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 year ended June 30, 2011 was approximately 5.2%.

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.

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

(in thousands of dollars)

Financial assistance provided	\$ 49,790
Government support applied to charity care	<u>(11,240)</u>
Net unreimbursed financial assistance	<u>38,550</u>
Benefits for the broader community	
Community health services	1,501
Health professions education	30,794
Research	10,577
Donations	<u>2,550</u>
Total quantifiable benefits for the broader community	<u>45,422</u>
Total unsponsored community benefits	<u>\$ 83,972</u>

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.

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4. Investments and Assets Whose Use is Restricted

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

(in thousands of dollars)

	Investment Maturities					N/A
	Fair Value	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 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, 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, 2011:

(in thousands of dollars)

Internally designated by the Board of Directors for:	
Capital improvements and debt service	\$ 185,501
Other health programs	5,745
Other post-employment benefits	2,473
Held by counterparty under swap agreements	8,111
Held by trustees under indenture agreements	20,295
	<u>222,125</u>
Less: Current portion	<u>(20,311)</u>
Long-term portion	<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.

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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.

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	\$ 1,406	\$ 1,054	\$ -	\$ -
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>\$ 1,406</u>	<u>\$ 1,054</u>	<u>\$ 65,416</u>	<u>\$ 263,191</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, 2011, Shands did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk

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

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, 2011.

Investment income, net for the year ended June 30, 2011 is as follows:

(in thousands of dollars)

Dividends, interest and other income	\$ 7,314
Realized gains, net	10,332
Net increase in the fair value of investments	19,820
Net increase in the fair value of derivative instruments	2,942
Loss on partial termination of a derivative instrument	(3,357)
Net investment income	<u>\$ 37,051</u>

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5. Capital Assets

A summary of changes in capital assets during fiscal year 2011 is as follows:

<i>(in thousands of dollars)</i>	Balance at June 30, 2010	Additions	Disposals and Transfers	Balance at June 30, 2011
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 \$51,948,000 for the year ended June 30, 2011. Amortization expense on equipment held under capital lease which is included within depreciation and amortization in the accompanying consolidated basic statement of revenues, expenses and changes in net assets was approximately \$877,000 for the year ended June 30, 2011. Interest costs capitalized were approximately \$638,000 for the year ended June 30, 2011. Construction-in-progress at June 30, 2011 mainly related to costs incurred for a new electronic medical records system. Shands has contracts for the construction and remodeling of facilities and equipment purchases. Estimated costs to complete the installation of the projects was approximately \$51,167,000 at June 30, 2011.

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6. Long-Term Debt

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

(in thousands of dollars)

Health Facilities Revenue Bonds	
Series 1996A, final maturity December 2016	\$ 14,805
Series 2007A, final maturity December 2037	100,395
Series 2007B, final maturity December 2037	35,000
Series 2008A, final maturity December 2037	75,000
Series 2008B, final maturity December 2037	50,000
Series 2008C, final maturity October 2028	65,625
Series 2008D1, final maturity December 2023	21,715
Series 2008D2, final maturity December 2030	22,625
Series 2010A, final maturity July 2025	67,613
Series 2010B, final maturity December 2015	36,935
	<u>489,713</u>
Installment debt, final maturity November 2013	8,350
	<u>498,063</u>
Less: Net unamortized bond premium	610
Total long-term debt	<u>498,673</u>
Less: Current portion	<u>(20,834)</u>
Long-term portion	<u>\$ 477,839</u>

Changes in Shands' long-term debt, excluding unamortized discounts or premiums were as follows:

<i>(in thousands of dollars)</i>	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts Due Within One Year
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
Total long-term debt	<u>\$ 506,085</u>	<u>\$ 8,850</u>	<u>\$ (16,872)</u>	<u>\$ 498,063</u>	<u>\$ 20,412</u>

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

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

(in thousands of dollars)

Year Ending June 30	Debt Service Principal	Debt Service Interest
2012	\$ 20,412	\$ 8,752
2013	18,132	8,373
2014	19,102	7,852
2015	18,422	7,169
2016	19,017	6,457
2017-2021	62,749	27,375
2022-2026	75,899	19,302
2027-2031	82,340	11,943
2032-2036	121,830	4,129
2037-2038	60,160	403
	<u>\$ 498,063</u>	<u>\$ 101,755</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, 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.

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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 1.04% at June 30, 2011. 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 0.22% at June 30, 2011. The Series 2008A Bonds and Series 2008B Bonds are backed by a bank letter of credit for approximately \$126,798,000 that expires in July 2013 with an option for extension. There were no amounts outstanding under this letter of credit at June 30, 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 1.42% at June 30, 2011. 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.

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, 2011. The Series 2010A Bonds are covered under the Master Trust Indenture with U.S. Bank.

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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.

Cash paid for interest, net of amounts capitalized, was approximately \$17,462,000 for the year ended June 30, 2011.

7. Interest Rate Swaps

On June 30, 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	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.	\$ (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%.	\$ 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.	\$ (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.	\$ (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.	\$ 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.	\$ 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.	\$ (7,053)
2008C	Fixed rate payer interest rate swap	Hedge of changes in cash flows on the Series 2008C Revenue Bonds	\$ 65,625	\$ 65,625	11/05/2008	10/02/2028	Pay fixed rate of 4.18%. Receive 65% of one month LIBOR plus 130 basis points.	\$ (4,278)

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During the year ended June 30, 2011, the fixed rate 2007A, 2007B, 2008A and 2008C interest rate swaps qualified for hedge accounting under GASB No. 53. 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 statement of net assets.

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, 2011, the credit ratings for the counterparty of all of 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 and 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, 2011, the weighted variable interest rate on Shands hedged variable rate debt is 0.18%, while the swap index is 67% of one month LIBOR or 0.12%.

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 \$8,111,000 was required to be posted as of June 30, 2011.

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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 statement of revenues, expenses and changes in net assets.

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 \$5,640,000 for the year ended June 30, 2011.

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 year 2011 totaled approximately \$26,271,000. The contributions represent approximately 6.63% of current covered payroll for fiscal year 2011. Total pension expense for the year ending June 30, 2011 totaled approximately \$30,201,000. As of June 30, 2011, Shands has a pension asset of approximately \$82,021,000. Pension expense is allocated to Shands' facilities based on valuation of payroll.

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

Covered payroll for the calculation of the 2011 actuarial information	<u>\$ 396,053,964</u>
Participant data as of July 1, 2010 (date of most recent valuation)	
Active	7,688
Retired	1,472
Terminated vested	<u>3,812</u>
	<u>12,972</u>

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The more significant actuarial assumptions utilized in the most recent actuarial valuation (April 1, 2011) for computing the annual required contributions for the Plan are as follows:

Assumed rate of return on investments	7.5% per year (net of expenses)
Mortality basis	2011 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%

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Retirement Rates

Attained Age	Cash Balance Benefits	Traditional Benefits
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, 2011 was approximately \$628,782,000. The actuarial value of the Plan assets available to pay these benefits at April 1, 2011 was approximately \$625,296,000, leaving a deficit as compared to the AAL of approximately \$3,486,000 at April 1, 2011. The AAL and the actuarial value of Plan net assets for the current year are based upon the April 1, 2011 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.

The funded status of the Plan as of April 1, 2011, 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, 2011	<u>\$ 625,296,308</u>	<u>\$ 628,781,832</u>	<u>\$ 3,485,524</u>	<u>99.45%</u>	<u>\$ 396,053,964</u>	<u>0.88%</u>

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, 2011, the present value of accumulated Plan benefits was approximately \$620,097,000.

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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, 2011	July 1, 2010	July 1, 2009
	(Unaudited) (Unaudited)		
Net assets available for benefits as a percentage of the AAL	99.45%	95.74%	94.72%
Unfunded actuarial accrued liability as a percentage of covered payroll	0.88%	5.97%	6.88%
Annual required contributions as a percentage of covered payroll	6.63%	5.67%	4.90%

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.

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:

	2011	2010	2009
	(Unaudited)		(Unaudited)
Annual required contribution	\$ 26,271,142	\$ 23,308,692	\$ 20,129,673
Interest on net pension obligation	(3,210,346)	(3,098,257)	(2,969,610)
Adjustment to annual required contribution	<u>7,140,114</u>	<u>3,414,877</u>	<u>3,273,083</u>
Annual pension cost	30,200,910	23,625,312	20,433,146
Contributions made by Shands	<u>(70,798,000)</u>	<u>(27,494,500)</u>	<u>(21,992,500)</u>
Decrease in net pension obligation	(40,597,090)	(3,869,188)	(1,559,354)
Net pension (asset) obligation			
Beginning of year	<u>(41,423,818)</u>	<u>(37,554,630)</u>	<u>(35,995,276)</u>
End of year	<u>\$ (82,020,908)</u>	<u>\$ (41,423,818)</u>	<u>\$ (37,554,630)</u>
Percentage of annual pension cost contributed	<u>234.4%</u>	<u>116.4%</u>	<u>107.6%</u>

The net pension asset of approximately \$82,021,000 is included within other assets in the accompanying consolidated basic statement of net assets.

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

(in thousands of dollars)

Statement of Plan Net Assets

Cash and short-term investments	\$ 2,404
Investments at fair value	
Domestic equity funds and securities	197,710
International equity funds and securities	192,593
Fixed income funds	157,332
High yield fund	50,884
Private equity	27,667
Total investments	<u>626,186</u>
Net assets held in trust for pension benefits	<u>\$ 628,590</u>

(in thousands of dollars)

Statement of Changes in Plan Net Assets

Beginning investment value of account	\$ 467,433
Receipts	
Employer contributions	70,798
Realized and unrealized gains, net	105,385
Interest and dividends	14,504
Total receipts	<u>190,687</u>
Disbursements	
Benefit payments	25,243
Investment management and administrative fees	4,287
Total disbursements	<u>29,530</u>
Ending investment value of account	<u>\$ 628,590</u>

9. Other Postemployment Benefits

In addition to providing pension benefits, Shands provides certain health care benefits for approximately 1,187 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.

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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 year 2011 was approximately \$323,000. This includes approximately \$146,000 of actual payments (contributions) during fiscal year 2011, and approximately \$177,000 of additional expense recorded on the accrual basis.

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 year 2011, Shands contributed approximately \$146,000 to the plan, which is net of retiree contributions. Retiree contributions for fiscal year 2011 were approximately \$263,000 according to the following table:

Average annual retiree contributions (pre and post Medicare)

	Retiree	Spouse/Family
Preferred Plan	\$ 8,606	\$ 10,840
Basic Plan	6,221	7,695
Limited Plan	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, 2011 are as follows:

Annual required contribution	\$ 447,254
Interest on net OPEB obligation	63,100
Adjustment to annual required contribution	<u>(187,846)</u>
Annual OPEB cost	322,508
Contributions made	<u>(146,133)</u>
Increase in net OPEB obligation	176,375
Net OPEB obligation	
Beginning of year	<u>1,201,914</u>
End of year	<u>\$ 1,378,289</u>

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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, 2011	\$ 322,508	45.3%	\$ 1,378,289
June 30, 2010 (unaudited)	437,721	-4.4%	1,201,914
June 30, 2009 (unaudited)	420,623	-1.2%	744,866

Funded Status and Funding Progress

As discussed above, the GASB does not require, and Shands has not funded, the AAL. As of April 1, 2011, the unfunded actuarial accrued liability ("UAAL") for benefits was approximately \$1,961,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$396,054,000 and the ratio of the UAAL to the covered payroll was 0.50%.

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, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.75% 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	4.75% per year
Retiree contribution increases	Retiree contributions increases are calculated so that the employer claim payments are capped at a 3% increase each year.

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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	7.70%
Ultimate Trend Rate	4.50%
Year that the rate reaches the ultimate trend rate	2028

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 Health Management Associates, Inc. ("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 \$39,922 and are subject to increases annually based upon the change in the Consumer Price Index. The lease expires June 30, 2040.

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

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, 2011:

<i>(in thousands of dollars)</i> Years Ending	Capital Lease	Operating Leases
2012	\$ 941	\$ 4,892
2013	941	3,813
2014	548	3,831
2015	-	2,736
2016	-	2,782
Thereafter	-	9,636
	<hr/>	<hr/>
Total minimum lease payments	2,430	\$ 27,690
Less: Amount representing interest	(110)	
Present value of net minimum lease payments	<hr/> <u>\$ 2,320</u>	

Operating lease expense for the rental of property and equipment for the year ended June 30, 2011 was approximately \$5,963,000. Accumulated amortization on capital leases as of June 30, 2011 was approximately \$1,242,000.

Commitments

Shands has contracts for the construction and remodeling of facilities, equipment purchases, and maintenance of computer application software for its core operation systems. As of June 30, 2011, the remaining commitment relating to these contracts was approximately \$23,000,000.

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).

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

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 year ended June 30, 2011 was approximately \$39,652,000. The estimated claims incurred, payments on claims and the balance of the reserve for health insurance claims for the year ended June 30, 2011 were as follows:

(in thousands of dollars)

Amount of claims liabilities at the beginning of the year	\$ 12,502
Incurred claims	45,137
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(50,046)</u>
Amount of claims liabilities at the end of the year	<u>\$ 7,593</u>

Workers' Compensation Insurance

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

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.

11. Transactions with Related Parties

Shands has various agreements for services provided by the University of Florida 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 \$142,088,000 for the year ended June 30, 2011, of which approximately \$37,675,000 for the year ended June 30, 2011 are transfers and expenditures in support of the University of Florida and its medical programs included under this caption in the accompanying consolidated basic statement of revenues, expenses and changes in net assets. At June 30, 2011, approximately \$5,566,000 was owed to the University of Florida under these agreements and is included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net assets.

Shands provides contracted services at cost to the University of Florida 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 \$56,653,000 for the year ended June 30, 2011. At June 30, 2011, approximately \$2,068,000 was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net assets.

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

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

During 2010, Shands entered into 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, 2011, the fair value of investments managed by UFICO on Shands' behalf was approximately \$193,733,000. Investment management fees of approximately \$228,000 were incurred for the year ended June 30, 2011.

Shands provides contracted services at cost to Shands Jacksonville Medical Center, Inc. ("Shands Jacksonville"), a related party entity controlled by the University of Florida, for administrative support services. The amount credited against expenses for these contracted services was approximately \$5,712,000 for the year ended June 30, 2011. At June 30, 2011, approximately \$831,000 was owed to Shands under these agreements and is included in prepaid expenses and other current assets in the accompanying consolidated basic statement of net assets.

Shands Jacksonville provides organ procurement services to Shands. Expenses related to the organ procurement services were approximately \$513,000 for the year ended June 30, 2011.

At June 30, 2011 Shands has a note receivable of approximately \$41,635,000 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 \$1,368,000 is included within prepaid expenses and other current assets and the long-term portion of the note receivable of approximately \$40,267,000 is included within other assets in the accompanying consolidated basic statement of net assets.

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:

Medicare	26.2%
Medicaid	13.6%
Other third-party payors	59.8%
Patients	0.4%
	100.0%

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, 2006 Through June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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)
July 1, 2006	\$ 405,682,816	\$ 398,704,850	\$ (6,977,966)	101.8%	\$ 342,650,612	-2.0%
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%

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Historical Summary of Actual and Required Pension Contributions (Unaudited)
July 1, 2005 Through June 30, 2011

(Fiscal) Plan Year	Employer Contributions		
	Annual Required Contribution	Annual Contributions Made by Shands	Percentage Contributed
July 1, 2005 to June 30, 2006	\$ 17,443,288	\$ 21,865,500	125.4%
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%

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Historical Summary of Actual and Required Other Postretirement Contributions
Under GASB Statement No. 45 (Unaudited)
July 1, 2008 Through June 30, 2011

(Fiscal) Plan Year	Employer Contributions		
	Annual Required Contribution	Actual Contributions, Net of Retiree Contributions	Percentage Contributed
July 1, 2008 to June 30, 2009	\$ 425,226	\$ (4,997)	100.0%
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%

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Consolidating Basic Statement 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
Assets																	
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
Liabilities and Net Assets																	
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 Statement 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
Operating revenues																	
Net patient service revenues, 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
Operating expenses																	
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
Nonoperating revenues (expenses)																	
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 Statement 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
Net assets																	
Beginning of year, as restated	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