

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

**Consolidated Financial Statements and
Consolidating Information
June 30, 2009 and 2008**

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Index

June 30, 2009 and 2008

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Report of Independent Certified Public Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations 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”) at June 30, 2009, and the results of their operations and their 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. The financial statements of Shands as of June 30, 2008 and for the year then ended were audited by other auditors whose report dated September 12, 2008 expressed an unqualified opinion on those statements.

As discussed in Note 6 to the consolidated financial statements, Shands adopted the measurement date provisions of Statement of Financial Accounting Standards No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (“Statement 158”), on July 1, 2007.

As discussed in Note 1 to the consolidated financial statements, Shands adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, on July 1, 2008.



September 4, 2009

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2009 and 2008

(in thousands of dollars)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 213,941	\$ 229,765
Investments	173,049	167,039
Patient accounts receivable, less allowance for uncollectible accounts of \$97,962 in 2009 and \$75,588 in 2008	168,450	188,803
Assets limited as to use, current portion	50,712	39,234
Prepaid expenses and other current assets	50,864	50,019
Total current assets	<u>657,016</u>	<u>674,860</u>
Assets limited as to use, less current portion	81,023	234,034
Property and equipment, net	904,574	849,193
Other assets	39,828	58,472
Total assets	<u>\$ 1,682,441</u>	<u>\$ 1,816,559</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 194,210	\$ 185,888
Long-term debt, current portion	20,773	12,355
Capital lease obligations, current portion	833	146
Estimated third-party payor settlements	47,024	72,390
Total current liabilities	<u>262,840</u>	<u>270,779</u>
Long-term debt, less current portion	608,240	672,988
Capital lease obligations, less current portion	7,580	6,725
Other liabilities	235,089	113,895
Total liabilities	<u>1,113,749</u>	<u>1,064,387</u>
Commitments and contingencies		
Net assets		
Unrestricted	560,266	740,937
Temporarily restricted	8,195	10,911
Permanently restricted	231	324
Total net assets	<u>568,692</u>	<u>752,172</u>
Total liabilities and net assets	<u>\$ 1,682,441</u>	<u>\$ 1,816,559</u>

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2009 and 2008

(in thousands of dollars)

	2009	2008
Unrestricted revenues and other support		
Net patient service revenue	\$ 1,536,324	\$ 1,410,950
Capitation revenue	33,416	64,046
Investment income	18,473	42,438
Other revenue	<u>147,132</u>	<u>161,823</u>
Total unrestricted revenues and other support	<u>1,735,345</u>	<u>1,679,257</u>
Expenses		
Salaries, wages and benefits	714,196	708,220
Supplies and other	659,337	664,091
Interest	14,836	15,749
Depreciation and amortization	76,773	77,020
Provision for bad debts	<u>173,395</u>	<u>139,793</u>
Total expenses	<u>1,638,537</u>	<u>1,604,873</u>
Operating income	96,808	74,384
Nonoperating gains (losses), net	1,205	(76)
Expenditures in support of the University of Florida and its medical programs	(64,124)	(59,309)
Losses, reclassifications, and change in fair value of derivative instruments	(16,913)	(1,273)
Gains (losses) from early extinguishment of long-term debt, net	27,247	(5,625)
Impairment and restructuring charges	<u>(71,922)</u>	<u>(1,661)</u>
(Deficiency) excess of revenues over expenses	<u>\$ (27,699)</u>	<u>\$ 6,440</u>

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2009 and 2008

(in thousands of dollars)

	2009	2008
Unrestricted net assets		
(Deficiency) excess of revenues over expenses	\$ (27,699)	\$ 6,440
Effect of adoption of measurement date provisions of Statement of Financial Accounting Standards No. 158	-	29,211
Pension-related changes other than net periodic pension cost	(103,157)	(19,942)
Change in net unrealized gains and losses on other-than-trading securities	(51,372)	(41,476)
Change in fair value of derivative instruments designated as cash flow hedges	(1,036)	(20,912)
Reclassification to (deficiency) excess of revenues over expenses of accumulated loss related to terminated derivative instrument designated as a cash flow hedge and derivative instrument no longer designated as a cash flow hedge	(9,274)	-
Contributions received for equipment purchases and net assets released from restrictions	11,867	423
Decrease in unrestricted net assets	<u>(180,671)</u>	<u>(46,256)</u>
Temporarily restricted net assets		
Contributions	6,845	9,705
Net assets released from restrictions	<u>(9,561)</u>	<u>(3,551)</u>
(Decrease) increase in temporarily restricted net assets	<u>(2,716)</u>	<u>6,154</u>
Permanently restricted net assets		
Contributions	-	35
Investment income appropriated for current operations	(67)	-
Change in interest in net assets of University of Florida Foundation, Inc.	<u>(26)</u>	<u>-</u>
(Decrease) increase in permanently restricted net assets	<u>(93)</u>	<u>35</u>
Decrease in net assets	(183,480)	(40,067)
Net assets		
Beginning of year	<u>752,172</u>	<u>792,239</u>
End of year	<u>\$ 568,692</u>	<u>\$ 752,172</u>

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008

(in thousands of dollars)

	2009	2008
Cash flows from operating activities		
Decrease in net assets	\$ (183,480)	\$ (40,067)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Provision for bad debts	173,395	139,792
Depreciation and amortization	76,773	77,020
Net loss on disposal of property and equipment	275	1,326
(Gains) losses from early extinguishment of long-term debt, net	(27,247)	5,625
Impairment and restructuring charges	71,922	1,661
Contributions received for equipment purchases and other changes	(3,333)	(423)
Effect of adoption of measurement date provisions of Statement of Financial Accounting Standards No. 158	-	(29,211)
Pension-related changes other than net periodic pension cost	103,157	19,942
Change in net unrealized gains and losses on other-than-trading securities	51,372	41,476
Change in fair value of derivative instruments designated as cash flow hedges	1,036	20,912
Reclassification to (deficiency) excess of revenues over expenses of accumulated loss related to terminated derivative instrument designated as a cash flow hedge and derivative instrument no longer designated as a cash flow hedge	9,274	-
Temporarily and permanently restricted contributions	(6,752)	(9,740)
Change in operating assets		
Patients accounts receivable	(153,042)	(157,957)
Prepaid expenses and other current assets	(845)	1,680
Change in operating liabilities		
Accounts payable and accrued expenses	11,730	32,081
Estimated third-party payor settlements	(25,366)	19,498
Other liabilities	18,037	6,194
Net cash provided by operating activities	<u>116,906</u>	<u>129,809</u>
Cash flows from investing activities		
Sales of investments and assets limited as to use, net	84,151	13,069
Purchases of property and equipment	(188,070)	(219,936)
Other investing activities	(11,357)	(5,647)
Net cash used in investing activities	<u>(115,276)</u>	<u>(212,514)</u>
Cash flows from financing activities		
Proceeds from issuance of debt	119,340	368,355
Payment of termination of derivative instrument designated as a cash flow hedge	(9,274)	-
Payments of long-term debt and capital lease obligations	(164,127)	(255,473)
Payment of bond issuance costs	(725)	(800)
Gains (losses) from early extinguishment of long-term debt, net	27,247	(5,625)
Temporarily and permanently restricted contributions	6,752	9,740
Contributions received for equipment purchases and other changes	3,333	423
Net cash (used in) provided by financing activities	<u>(17,454)</u>	<u>116,620</u>
(Decrease) increase in cash and cash equivalents	(15,824)	33,915
Cash and cash equivalents		
Beginning of year	<u>229,765</u>	<u>195,850</u>
End of year	<u>\$ 213,941</u>	<u>\$ 229,765</u>

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

1. Organization and Summary of Significant Accounting Policies

Shands Teaching Hospital and Clinics, Inc. ("Shands") was incorporated on October 15, 1979 as a Florida not-for-profit corporation. Shands operates a multi-hospital system. The accompanying 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 a 660-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 Jacksonville HealthCare, Inc. ("Shands Jacksonville")** is a Florida not-for-profit corporation. Shands Jacksonville Medical Center, Inc. ("SJMC"), a subsidiary of Shands Jacksonville, operates a teaching hospital located in Jacksonville, Florida. The teaching hospital is licensed to operate 695 beds and provides clinical settings for medical education programs at the University of Florida. Shands is the sole corporate member of Shands Jacksonville.
- **Shands AGH**, a division of Shands, is an acute care community hospital located in Gainesville, Florida, licensed to operate 367 beds. In October 2008, the Shands Board of Directors announced their decision to close Shands AGH in November 2009 and consolidate its services into Shands UF. Refer to the accompanying "Impairment and Restructuring Charges" and "Goodwill" footnotes for additional information.
- **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 at Lake Shore, Inc. ("Shands Lake Shore")**, a Florida not-for-profit corporation, is an acute care community hospital located in Lake City, Florida, licensed to operate 99 beds. Shands is the sole corporate member of Shands Lake Shore.
- **Shands Starke**, a division of Shands, is an acute care community hospital located in Starke, Florida, licensed to operate 25 beds.
- **Shands Live Oak**, a division of Shands, is an acute care community hospital located in Live Oak, Florida, licensed to operate 15 beds.
- **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 near Shands AGH including a condominium medical office building and nonmedical buildings.
- **Elder Care of Alachua County, Inc. ("Elder Care")**, 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 Elder Care.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

- **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.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Tax Status

Shands and most of 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. Certain of Shands’ subsidiaries are organized as taxable entities with applicable income taxes reported as required.

Use of Estimates

The preparation of these consolidated 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 financial statements and accompanying notes. Actual results could differ from those estimates.

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 limited as to use in the accompanying consolidated financial statements.

Investments and Investment Income

Investments in debt and equity securities are measured at fair value at the balance sheet dates. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in (deficiency) excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from (deficiency) excess of revenues over expenses since the investments are classified as other than trading securities.

Assets Limited as to Use

Assets limited as to use 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.

Property and Equipment

Property and equipment are recorded at cost, except for donated items, which are recorded at fair value at the date of receipt as an addition to net assets. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the related depreciable assets. Property and equipment 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 expense. 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 is amortized on a straight-line basis over a 20-year period.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

Unamortized goodwill was approximately \$4,455,000 and \$22,565,000 at June 30, 2009 and 2008, respectively, and is included in other assets in the accompanying consolidated balance sheets. Amortization of goodwill of approximately \$2,520,000 and \$3,134,000 is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2009 and 2008, respectively.

In October 2008, the Shands Board of Directors announced their decision to close Shands AGH and consolidate its services into Shands UF in November 2009. As a result of the decision to close Shands AGH, Shands determined the remaining balance of unamortized goodwill in Shands AGH of approximately \$15,888,000 was impaired (see Impairment and Restructuring Charges on page 9). In 2008, Shands determined that the remaining unamortized goodwill of approximately \$1,661,000 at Shands Lake Shore was impaired. Both of these amounts are included in impairment and restructuring charges in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2009 and 2008, respectively. Goodwill is tested for impairment as of June 30 of each year, absent any impairment indicators.

Costs of Borrowing

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. Bond issuance costs and original issue discounts are amortized over the period the bonds are outstanding using the effective interest method.

Net Patient Service Revenue and Patient Accounts Receivable

Shands has agreements with third-party payors that provide for payments to Shands at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the years ended June 30, 2009 and 2008, net patient service revenue increased approximately \$17,913,000 and \$17,747,000, respectively, due to such adjustments.

For the years ended June 30, 2009 and 2008, respectively, approximately 29% and 30% of net patient service revenue was earned under the Medicare program and 17% and 19% under the Medicaid program. 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.

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. Accounts receivable are written off after collection efforts have been followed under Shands' policies.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

Capitation Revenue and Related Expenses

During the six month period ending December 31, 2008 and for the year ending June 30, 2008, Shands had one capitated agreement with a managed care organization. This contract was terminated effective January 1, 2009.

(Deficiency) Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues over expenses. Changes in unrestricted net assets which are excluded from (deficiency) excess of revenues over expenses, consistent with industry practice, consist of unrealized gains and losses on other-than-trading securities, change in fair value of derivative instruments designated as cash flow hedges, amounts related to discontinuance of cash flow hedges, contributions of long-lived assets (including assets acquired using donor-restricted contributions), and change in the funded status of defined benefit postretirement plans.

Impairment and Restructuring Charges

In October 2008, the Shands Board of Directors announced their decision to close Shands AGH and consolidate its services into Shands UF in November 2009. In anticipation of the closure, Shands determined that the net book value of the building and certain equipment of approximately \$50,891,000 and unamortized goodwill of approximately \$15,888,000 was impaired. Restructuring charges of approximately \$5,143,000 reflecting anticipated employee retention and severance costs have been accrued. These amounts are included in impairment and restructuring charges in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2009.

Nonoperating Gains (Losses), Net

Nonoperating gains (losses), net represent the net activities or transactions incidental or peripheral to the direct care of patients.

Pledges Receivable

Pledges receivable represents donor commitments to provide future funding, primarily in association with the Shands Cancer Hospital. 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 balance sheets. The long-term portion of pledges receivable are reported in other assets in the accompanying consolidated balance sheets. Pledge discount rates range from 3% - 7% and are generally due in five years or greater.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Shands has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are maintained primarily for the purpose of patient care-related services, capital improvements, and research and education. When a stipulated time restriction ends or restricted purpose is accomplished, temporarily restricted net assets are released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Permanently restricted net assets have been restricted by donors to be maintained by Shands in perpetuity. Income from permanently restricted net assets is used for the restricted purpose as stipulated by the donor.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

Derivative Financial Instruments

Shands' derivative financial instruments consist of 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 Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities an Amendment of SFAS No. 133*, and Statement of Position ("SOP") No. 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Healthcare Organizations* ("SOP No. 02-2"). SOP No. 02-2 requires that not-for-profit health care organizations apply the provisions of SFAS No. 133 (including the provisions pertaining to cash flow hedge accounting) in the same manner as for-profit enterprises. SOP No. 02-2 also clarifies that the performance indicator (excess of revenues over expenses) reported by not-for-profit health care organizations is analogous to income from continuing operations of a for-profit enterprise.

SFAS No. 133 requires companies to recognize all derivative instruments as either assets or liabilities in the balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instruments based upon the exposure being hedged.

At June 30, 2009 and 2008, Shands has no derivative instruments that are designed as fair value hedges or as hedges of the foreign currency exposure of a net investment in a foreign operation. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of unrestricted net assets. The ineffective component, if any, is recorded in (deficiency) excess of revenues over expenses in the period in which the hedge transaction affects earnings. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains or losses on the derivative are recorded in (deficiency) excess of revenues over expenses. For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in losses, reclassifications, and change in fair value of derivative instruments in the accompanying consolidated statements of operations and changes in net assets during the period of change.

During 2003, Shands entered into an interest rate swap agreement to effectively convert \$75,000,000 of existing variable rate debt (Series 1996B Bonds) to a fixed rate basis through 2026, thus reducing the impact of interest rate changes on future interest expense. During 2009, Shands retired the Series 1996B Bonds and the swap no longer qualifies as a cash flow hedge. As a result, losses of approximately \$2,988,000 were reclassified from unrestricted net assets and reported as losses, reclassifications, and change in fair value of derivative instruments in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2009.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

During 2007, Shands entered into an interest rate swap agreement to effectively convert \$220,210,000 of variable rate debt (Series 2007A and 2007B Bonds) to a fixed rate basis through 2037, thus reducing the impact of interest rate changes on future interest expense. During 2009, Shands retired a portion of the bonds. Losses of approximately \$6,286,000 were reclassified from unrestricted net assets and reported as losses, reclassifications, and change in fair value of derivative instruments in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2009 upon the termination of a portion of the swap. The interest rate swap on the remaining \$135,395,000 of variable rate debt remains designated as a cash flow hedge.

During 2009, Shands entered into an interest rate swap agreement to effectively convert \$75,000,000 of variable rate debt (Series 2008C Bonds) to a fixed rate basis through 2028, thus reducing the impact of interest rate changes on future interest expense. In accordance with SFAS No. 133, Shands has designated this interest rate swap agreement as a cash flow hedge.

Shands has posted collateral of approximately \$4,350,000 as of June 30, 2009 in accordance with the provision of its swap agreements. Collateral is classified as assets limited as to use, less current portion in the accompanying consolidated balance sheets.

The accumulated loss included in unrestricted net assets associated with Shands' cash flow hedges was approximately \$16,526,000 and \$6,215,000 at June 30, 2009 and 2008, respectively. There were no reclassifications of gain or losses from unrestricted net assets into (deficiency) excess of revenues over expenses associated with cash flow hedges during the year ended June 30, 2008. Shands does not expect that the amount of gain or loss in unrestricted net assets to be reclassified into (deficiency) excess of revenues over expenses within the next 12 months will be significant.

Functional Expenses

Shands does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since Shands receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions recognized in financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Effective July 1, 2007, Shands adopted FIN 48. The adoption of FIN 48 did not have a material impact on Shands' financial position or results of operations.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

Fair Value Measurements

On July 1, 2008, Shands adopted FASB Statement No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB Statement No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, FASB Statement No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs such as quoted prices in active markets;

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in FASB Statement No. 157. The three valuation techniques are as follows:

Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

On a recurring basis, Shands is required to measure other-than-trading securities and interest rate swaps at fair value. The fair values of other-than-trading securities are determined based on quoted market prices in active markets and based upon the marketability of those assets or model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data. The fair value of interest rate swaps are determined using the estimated present value of the fixed leg and floating leg of the swap. The value of the fixed leg is the present value of the known fixed coupon payments. The value of the floating leg is the present value of the floating coupon payments determined at the agreed dates of each payment. Forward rates derived from the yield curve are used to approximate the floating rates. Each series of cash flows is discounted by market rates of interest. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of fair values. Furthermore, while Shands believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

The fair values of financial assets and liabilities that are measured on a recurring basis are as follows:

(in thousands of dollars)

	Fair Value	Fair Value Measurements at Reporting Date Using				Valuation Technique(1)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets						
Cash and cash equivalents	\$ 213,941	\$ 213,941	\$ -	\$ -		M
Investments and assets limited as to use	\$ 304,784	\$ 165,001	\$ 139,783	\$ -		M, I
Liabilities						
Interest rate swaps	\$ (29,435)	\$ -	\$ (29,435)	\$ -		I

(1) As discussed above, FASB Statement No. 157 identifies three valuation techniques: market approach (M); cost approach (C), and income approach (I).

FASB Staff Position (“FSP”) No. 157-2, *Effective Date of FASB Statement No. 157*, delayed the effective date of FASB Statement No. 157 by one year for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

Reclassifications

Certain reclassifications were made to the 2008 consolidated financial statements to conform with 2009 presentation. These reclassifications had no impact on the consolidated change in net assets previously reported.

2. Unsponsored Community Benefit

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

Community benefit categories include financial assistance, community health services, health professions education, research, and donations. 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 (“VHA”).

Shands has policies providing financial assistance for patients requiring care but 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. Shands maintains records to identify and monitor the level of financial assistance it provides. Charges foregone for services provided under Shands’ financial assistance policy as a percentage of total charges for the years ended June 30, 2009 and 2008 was approximately 9.4% and 10.6%, respectively.

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

- Community health services include activities carried out to improve community health. They extend beyond patient care activities and are usually subsidized by the health care organization. Examples include community health education, counseling and support services, and health care screenings.
- Health professions education includes education provided in clinical settings such as internships and programs for physicians, nurses, and allied health professionals. It also includes scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.
- Research includes studies on health care delivery, unreimbursed studies on therapeutic protocols, evaluation of innovative treatments, and research papers prepared for professional journals.
- Donations include funds and in-kind services benefiting the community-at-large.

Shands' valuation of unsponsored community benefits at cost for the year ended June 30, 2009 is as follows:

(in thousands of dollars)

Financial assistance provided	\$ 128,777
Government support applied to charity care	<u>(33,311)</u>
Net unreimbursed financial assistance	<u>95,466</u>
Benefits for the broader community	
Community health services	2,801
Health professions education	54,482
Research	5,867
Donations	<u>4,215</u>
Total quantifiable benefits for the broader community	<u>67,365</u>
Total unsponsored community benefits	<u>\$ 162,831</u>

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

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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 both Jacksonville and Gainesville. Shands also maintains air ambulance services at its trauma centers, as well as a regional burn intensive care unit in Gainesville 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 the smaller, rural communities, Shands hospital network includes critical access hospitals and rural health clinics in both Suwannee and Bradford counties.

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.

3. Investments and Assets Limited as to Use

Investments and assets limited as to use stated at fair value consist of the following at June 30, 2009 and 2008:

<i>(in thousands of dollars)</i>	2009	2008
Fixed income instruments		
Fixed income mutual funds	\$ 128,133	\$ 107,412
Commercial paper	133	3,830
Corporate bonds	2,364	20,535
Municipal bonds	1,834	2,425
Guaranteed investment contracts	16,510	18,297
	<u>148,974</u>	<u>152,499</u>
Equity instruments		
Domestic	76,105	98,046
International	44,544	62,973
	<u>269,623</u>	<u>313,518</u>
Cash and cash equivalents	35,161	126,789
	<u>\$ 304,784</u>	<u>\$ 440,307</u>

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Assets limited as to use include amounts internally designated by the Board of Directors and amounts held by trustees and swap counterparties with external restrictions and are comprised of the following at June 30, 2009 and 2008:

<i>(in thousands of dollars)</i>	2009	2008
Internally designated by the Board of Directors for:		
Capital improvements and debt service	\$ 90,006	\$ 133,462
Other health programs	4,664	6,101
Other post-employment benefits	1,823	2,141
Held by counterparty under swap agreements	4,350	-
Held by trustees - capital project fund	-	99,447
Held by trustees - under indenture agreements	30,892	32,117
	<u>131,735</u>	<u>273,268</u>
Less: Current portion	<u>(50,712)</u>	<u>(39,234)</u>
Long-term portion	<u>\$ 81,023</u>	<u>\$ 234,034</u>

Investment income from cash and cash equivalents, investments, and assets limited as to use amounted to approximately \$18,473,000 and \$42,438,000, which consists of \$18,840,000 and \$21,711,000 of interest and dividend income and \$(367,000) and \$20,727,000 of net realized (losses) gains, for the years ended June 30, 2009 and 2008, respectively.

4. Property and Equipment

The composition of property and equipment is as follows:

<i>(in thousands of dollars)</i>	2009	2008
Land	\$ 72,737	\$ 64,051
Buildings and leasehold improvements	824,201	808,796
Furniture and equipment	577,440	571,092
	<u>1,474,378</u>	<u>1,443,939</u>
Less: Accumulated depreciation and amortization	<u>(868,310)</u>	<u>(756,213)</u>
	606,068	687,726
Construction-in-progress	<u>298,506</u>	<u>161,467</u>
Property and equipment, net	<u>\$ 904,574</u>	<u>\$ 849,193</u>

Depreciation expense was approximately \$74,253,000 and \$73,469,000 for the years ended June 30, 2009 and 2008, respectively. Interest costs capitalized were approximately \$11,191,000 and \$9,966,000 for the years ended June 30, 2009 and 2008, respectively. Furthermore, an impairment charge of approximately \$50,891,000 was recorded for the year ended June 30, 2009 related to closure of Shands at AGH (Note 1). The change in retainage payable for the purchase of property and equipment was approximately \$(8,553,000) and \$23,609,000 for the years ended June 30, 2009 and 2008, respectively. Construction in progress at June 30, 2009 and 2008 mainly related to costs incurred for the construction of the Shands Cancer Hospital.

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5. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2009 and 2008:

<i>(in thousands of dollars)</i>	2009	2008
Health Facilities Revenue Bonds		
Series 1992R, final maturity December 2015	\$ 57,260	\$ 60,340
Series 1996A, final maturity December 2016	18,675	20,465
Series 1996B, final maturity December 2026	-	75,000
Series 2002A, final maturity December 2012	50,000	50,000
Series 2003A, final maturity January 2019	20,000	20,000
Series 2007A, final maturity December 2037	100,395	175,000
Series 2007B, final maturity December 2037	35,000	45,210
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	73,125	-
Series 2008D1, final maturity December 2023	21,715	-
Series 2008D2, final maturity December 2030	22,625	-
Health Facilities Revenue Notes		
Series 2000, matures December 2010	1,500	2,500
Health Revenue Bonds		
Series 2004A, final maturity February 2014	11,750	13,920
Series 2004B, final maturity February 2014	1,275	1,515
Series 2008, final maturity February 2029	59,405	59,405
Hospital Revenue Refunding Bonds Series 2005, final maturity October 2015	33,255	37,470
Other	-	603
	<u>630,980</u>	<u>686,428</u>
Less: Net unamortized bond discount	(1,967)	(1,085)
Total long-term debt	629,013	685,343
Less: Current portion	(20,773)	(12,355)
Long-term portion	<u>\$ 608,240</u>	<u>\$ 672,988</u>

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Scheduled principal payments on long-term debt, excluding unamortized bond discount, for each of the subsequent five years as of June 30, 2009 are as follows:

(in thousands of dollars)

Years Ending	
2010	\$ 20,990
2011	21,235
2012	21,545
2013	69,675
2014	23,245
Thereafter	<u>474,290</u>
	<u>\$ 630,980</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 Shands Jacksonville, Elder Care, and the Foundation. During 2007, Shands amended the Master Trust Indenture and pledges 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, 2009.

Series 1992R Health Facilities Revenue Bonds

In 1992, the Alachua County Health Facilities Authority issued the Series 1992R Health Facilities Revenue Bonds (“Series 1992R Bonds”) on behalf of Shands. The proceeds of the Series 1992R Bonds were used to refund a portion of the Series 1985 Bonds, Series 1985A Bonds, Series 1985R Bonds, and the Series 1988 Bonds and pay related issuance costs.

The Series 1992R Bonds are fixed rate bonds, which are collateralized by the unconditional and irrevocable guarantee of the Municipal Bond Investors Assurance Corporation. Interest rates on the Series 1992R Bonds range from 5.75% to 6.00% and are payable semiannually. The Series 1992R Bonds maturing on or after December 1, 2004 are redeemable at Shands’ option at par value. The Series 1992R Bonds are covered under the Master Trust Indenture with U.S. Bank.

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. Interest rates on the Series 1996A Bonds range from 5.40% to 6.25% and are payable semiannually. Certain of the Series 1996A Bonds maturing on or after December 1, 2006 are redeemable at the option of Shands on various dates at redemption prices ranging from 100% to 102% of par value. The Series 1996A Bonds are covered under the Master Trust Indenture with U.S. Bank.

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Series 1996B Health Facilities Revenue Bonds

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

The Series 1996B Bonds are variable rate demand bonds which are backed by a bank letter of credit totaling approximately \$76,000,000. During 2009, the Series 1996B Bonds were refunded. The refunding of the Series 1996B Bonds resulted in a loss from early extinguishment of long-term debt of approximately \$1,111,000.

Series 2002A and 2003A Health Facilities Revenue Bonds

In 2002 and 2003, the Alachua County Health Facilities Authority issued the Series 2002A Health Facilities Revenue Bonds ("Series 2002A Bonds") and the Series 2003A Health Facilities Revenue Bonds ("Series 2003A Bonds") on behalf of Shands. The proceeds of the Series 2002A Bonds and Series 2003A Bonds were used to finance capital improvement projects and pay related issuance costs.

The Series 2002A Bonds and Series 2003A Bonds are variable rate demand bonds which are backed by a bank letter of credit totaling approximately \$71,050,000. The letter of credit backing the Series 2002A Bonds and Series 2003A Bonds expires in January 2012, with an option for extension. There were no amounts outstanding under this letter of credit at June 30, 2009. The Series 2002A Bonds and Series 2003A Bonds are redeemable at the option of Shands at par value plus accrued interest at any interest payment date. The interest rate on the Series 2002A Bonds and Series 2003A Bonds were 0.90% at June 30, 2009. The Series 2002A Bonds and Series 2003A 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.

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 1.32% at June 30, 2009. During 2009, Shands purchased \$15,790,000 of Series 2007A Bonds and \$10,210,000 of Series 2007B Bonds. In addition, Shands refunded \$58,815,000 of Series 2007A Bonds. The partial purchase and partial refunding of the Series 2007A Bonds and Series 2007B Bonds resulted in a gain from extinguishment of long-term debt of approximately \$28,358,000. The Series 2007A Bonds and Series 2007B Bonds are covered under the Master Trust Indenture with U.S. Bank.

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Series 2007C and 2007D Health Facilities Revenue Bonds

In 2008, the Alachua County Health Facilities Authority issued the Series 2007C Health Facilities Revenue Bonds ("Series 2007C Bonds") and the Series 2007D Health Facilities Revenue Bonds ("Series 2007D Bonds") on behalf of Shands. The proceeds of the Series 2007C Bonds and Series 2007D Bonds are being used to finance capital improvement projects and to pay related costs of issuance.

The Series 2007C Bonds and Series 2007D Bonds are auction rate bonds. During 2008, due to disruptions in the credit markets, Shands purchased the auction rate bonds. Shands' purchase of the Series 2007C Bonds and Series 2007D Bonds resulted in a loss from extinguishment of long-term debt of approximately \$4,060,000.

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 0.35% at June 30, 2009. 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, 2009. 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 1.51% at June 30, 2009. 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.

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Series 2004A and 2004B Hospital Revenue Bonds

In 2004, the Jacksonville Economic Development Commission ("JEDC") issued the Series 2004A and Series 2004B Hospital Revenue Bonds ("Series 2004 Bonds") on behalf of SJMC to finance various capital improvement projects, to refund outstanding principal of the Series 1992, City of Jacksonville Hospital Revenue Bonds, and to pay related issuance costs.

The Series 2004 Bonds are fixed rate and auction rate bonds, which are collateralized by the unconditional and irrevocable guarantee of the Ambac Financial Group, Inc. Interest on the Series 2004 fixed rate bonds ranges from 2.75% to 5.00% and is payable semiannually. During 2008, due to disruptions in the credit markets, SJMC entered into a bridge loan to refund the Series 2004 auction rate bonds in the amount of \$58,950,000. The partial refunding of the Series 2004 Bonds resulted in a loss from extinguishment of long-term debt of approximately \$1,565,000.

Series 2005 Hospital Revenue Refunding Bonds

In 2005, the JEDC issued the Series 2005 Hospital Revenue Refunding Bonds ("Series 2005 Bonds") on behalf of Methodist Medical Center, Inc., Methodist Health System, Inc., and The Methodist Hospital Foundation, Inc. (the "Methodist Group"), of which Shands Jacksonville is the sole member. The Series 2005 Bonds were used to refund the outstanding principal of the Series 1989A and 1989B City of Jacksonville Hospital Revenue Refunding Bonds and to pay related issuance costs.

The Series 2005 Bonds are variable rate bonds, which are backed by a bank letter of credit for approximately \$47,300,000 that expires in April 2012 with an option for extension. There are no amounts outstanding under this letter of credit at June 30, 2009. The Series 2005 Bonds are redeemable at the option of SJMC at par value plus accrued interest at any interest payment date. The interest rate on the Series 2005 Bonds was 0.90% at June 30, 2009.

Series 2008 Hospital Revenue Bonds

In 2008, JEDC issued the Series 2008 Hospital Revenue Bonds ("Series 2008 Bonds") on behalf of SJMC to retire the bridge loan used to retire the 2004A and 2004B auction rate bonds and to pay related issuance costs. The Series 2008 Bonds are variable rate bonds, which are backed by a bank letter of credit for approximately \$60,184,000 that expires in June 2011 with an option for extension. There were no amounts outstanding under this letter of credit at June 30, 2009. The Series 2008 Bonds are redeemable at the option of SJMC at par value plus accrued interest at any interest payment date. The interest rate on the Series 2008 Bonds was 0.32% at June 30, 2009.

Cash paid for interest, net of amounts capitalized, was approximately \$26,155,000 and \$26,230,000 for the years ended June 30, 2009 and 2008, respectively.

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6. Postretirement Benefit Plans

Defined Contribution Plans

Shands sponsors the Shands HealthCare Matched Savings Plan and the Shands Jacksonville Retirement Plan, which are defined contribution plans that cover eligible employees of Shands. Under the provisions of these plans, employees' eligible contributions are matched by Shands at established rates. Contributions to these plans by Shands were approximately \$11,804,000 and \$11,471,000 for the years ended June 30, 2009 and 2008, respectively.

Defined Benefit Pension and Retiree Health Insurance Plans

Shands sponsors the Shands HealthCare Pension Plan ("Defined Benefit Pension Plan") which is a defined benefit pension plan that covers eligible employees of Shands. Shands also sponsors the Shands HealthCare Health Plan and Shands Jacksonville Health Plan (collectively referred to as the "Health Benefit Plans"), which provide certain health care insurance benefits to eligible retirees of Shands.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS No. 158"). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statements of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statements of financial position, and provide additional disclosures.

SFAS No. 158 requires plan sponsors to recognize an additional liability for the funded status (i.e., the difference between fair value of plan assets and the projected benefit obligations for pension plans and the difference between fair value of plan assets and the accumulated benefit obligation for other postretirement benefit plans) of its Defined Benefit Pension Plan and Health Benefit Plans on its consolidated balance sheets, with a corresponding adjustment to unrestricted net assets.

On July 1, 2007, Shands adopted the measurement date provisions of SFAS No. 158 to change the measurement date for measuring the plan assets and obligations relating to its Defined Benefit Pension Plan and Health Benefit Plans from March 31 to June 30. Shands also changed its discount rate for measuring plan obligations from 6.34% to 6.59%. The effect of the measurement date change and the change in the discount rate was an increase to unrestricted net assets and a decrease to other liabilities as of July 1, 2007 of approximately \$29,211,000.

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The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans at June 30, 2009 and 2008:

(in thousands of dollars)

	Defined Benefit Pension Plan		Health Benefit Plans	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 624,881	\$ 651,598	\$ 14,281	\$ 16,819
Service cost	26,228	28,539	350	727
Interest cost	45,340	41,489	371	1,064
Benefits paid	(20,061)	(17,878)	(436)	(910)
Actuarial (gain) loss	(33,649)	(67,631)	(474)	(3,222)
Effect of change of measurement date	-	(12,661)	-	(197)
Plan amendment	-	1,425	(9,001)	-
Benefit obligation at end of year	<u>\$ 642,739</u>	<u>\$ 624,881</u>	<u>\$ 5,091</u>	<u>\$ 14,281</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 539,273	\$ 557,272	\$ -	\$ -
Actual return on plan assets	(93,567)	(42,842)	-	-
Employer contributions	22,520	26,368	436	910
Benefits paid	(20,061)	(17,878)	(436)	(910)
Effect of change of measurement date	-	16,353	-	-
Fair value of plan assets at end of year	<u>448,165</u>	<u>539,273</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (194,574)</u>	<u>\$ (85,608)</u>	<u>\$ (5,091)</u>	<u>\$ (14,281)</u>
Accumulated benefit obligation	<u>\$ 573,595</u>	<u>\$ 529,143</u>	<u>\$ 5,091</u>	<u>\$ 14,281</u>

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(in thousands of dollars)

	Defined Benefit Pension Plan		Health Benefit Plans	
	2009	2008	2009	2008
Amounts recognized on the consolidated balance sheets				
Current liabilities	\$ -	\$ -	\$ (454)	\$ (794)
Noncurrent liabilities	<u>(194,574)</u>	<u>(85,608)</u>	<u>(4,637)</u>	<u>(13,487)</u>
Net amount recognized	<u>\$ (194,574)</u>	<u>\$ (85,608)</u>	<u>\$ (5,091)</u>	<u>\$ (14,281)</u>
Amounts recognized in unrestricted net assets				
Net loss (gain)	\$ 155,245	\$ 46,802	\$ (1,855)	\$ (1,494)
Prior service credit	<u>(3,563)</u>	<u>(4,855)</u>	<u>(7,414)</u>	<u>(1,076)</u>
Total amount recognized	<u>\$ 151,682</u>	<u>\$ 41,947</u>	<u>\$ (9,269)</u>	<u>\$ (2,570)</u>
Changes recognized in unrestricted net assets				
Effect of adoption of SFAS No. 158				
Plan amendments	-	1,425	(9,001)	-
Net actuarial loss (gain)	108,443	19,582	(474)	(3,222)
Amortization of prior service (cost) benefit	1,292	1,429	2,664	1,554
Amortization of actuarial loss	<u>-</u>	<u>(596)</u>	<u>112</u>	<u>(230)</u>
	<u>\$ 109,735</u>	<u>\$ (14,364)</u>	<u>\$ (6,699)</u>	<u>\$ (2,272)</u>

Benefit obligations as of the end of the year reflect assumptions in effect as of those dates. The weighted average assumptions used to determine benefit obligations at June 30, 2009 and 2008 were as follows:

	Defined Benefit Pension Plan		Health Benefit Plans	
	2009	2008	2009	2008
Discount rates	7.36%	7.38%	7.36%	7.38%
Rates of increase in future compensation levels	3.60%	4.66%	-	-

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The amounts in unrestricted net assets that are expected to be recognized as components of net periodic benefit cost during 2010 are as follows:

	Defined Benefit Pension Plan	Health Benefit Plans
Prior service benefit	\$ 1,292	\$ 1,588
Actuarial gain	-	167

The summary of components of net periodic benefit cost is as follows for the years ended June 30, 2009 and 2008:

(in thousands of dollars)

	Defined Benefit Pension Plan		Health Benefit Plans	
	2009	2008	2009	2008
Service cost	\$ 26,228	\$ 28,539	\$ 350	\$ 727
Interest cost	45,340	41,489	371	1,064
Expected return on plan assets	(48,525)	(44,371)	-	-
Amortization of prior service benefit	(1,292)	(1,429)	(2,664)	(1,554)
Recognized net actuarial (gain) loss	-	596	(113)	230
Net periodic pension cost	<u>\$ 21,751</u>	<u>\$ 24,824</u>	<u>\$ (2,056)</u>	<u>\$ 467</u>

Net pension and other benefit costs for each of the years presented were based on assumptions in effect at the end of the respective preceding year. The assumptions used to determine net periodic benefit cost for the years ended June 30, 2009 and 2008 were as follows:

	Defined Benefit Pension Plan		Health Benefit Plans	
	2009	2008	2009	2008
Weighted average discount rate	7.38%	6.59%	7.38%	6.59%
Weighted average expected long-term rate of return on plan assets	8.25%	8.25%	-	-
Weighted average rate of compensation increase	4.66%	4.66%	-	-

Increases in expected health care costs per capita ranging from 3% to 10% and 3% to 10.5% were used in measuring the expected costs of covered benefits for 2009 and 2008, respectively. The rate is assumed to decrease gradually each year to a forecasted rate ranging between 3.0% to 4.5% in 2028, and remain at that level thereafter.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Asset Allocation

The weighted average asset allocation for the Defined Benefit Pension Plan and the target allocation range, by asset category, are as follows at June 30, 2009 and 2008:

	Target Allocation	2009	2008
Domestic equity securities	27.5–37.5%	30.3%	31.9%
International equity securities	27.5–37.5%	32.2%	32.4%
Fixed income securities	19.0–31.0%	27.6%	27.3%
High-yield securities	3.0–7.0%	6.0%	5.3%
Private equity	3.0–7.0%	3.9%	3.1%

Investment Strategy

The asset allocation and investment strategy of the plans are designed to earn superior returns on plan assets consistent with a reasonable prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. Shands uses investment managers specializing in each asset category and, where appropriate, provides the investment managers with specific guidelines, which include allowable and/or prohibited investment types. Shands regularly monitors manager performance and compliance with investment guidelines.

Expected Rate of Return

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns for the effect of expenses paid from plan assets.

Expected Cash Flows

The following represents the expected pension and other benefit plan payments for the next five years and the five years thereafter:

(in thousands of dollars)

Years Ending	Defined Benefit Pension Plan	Health Benefit Plans
2010	\$ 24,178	\$ 453
2011	27,286	534
2012	30,211	583
2013	33,615	600
2014	37,490	625
2015-2019	250,236	3,069

During 2010, Shands expects to contribute approximately \$28,314,000 and \$454,000 to its Defined Benefit Pension Plan and Health Benefit Plans, respectively. No plan assets are expected to be returned to Shands during 2010.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

7. 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.

Substantially all of the land, buildings, and equipment of Shands Lake Shore are leased from the Lake Shore Hospital Authority of Columbia County (the "Authority") under a capital lease agreement with payments due monthly in varying amounts, which range from approximately \$42,000 to \$67,000. The lease agreement expires in March 2031. Payments on the capital lease reimburse the Authority for use of the leased land, building, and equipment and also fund the debt service requirements of the Health Facilities Revenue Bonds, Series 1991 ("Series 1991 Bonds"), issued by the Authority, with an outstanding principal balance of approximately \$2,600,000 at June 30, 2009. These bonds are supported by a direct-pay letter of credit issued by a bank in an amount not to exceed \$3,600,000, and repayment on the letter of credit is guaranteed by Shands. As of June 30, 2009, the amount outstanding on the letter of credit is \$2,600,000. The amount outstanding matures on July 2, 2010 and will convert to a term loan unless the bonds are remarketed. The term loan calls for equal principal payments and interest paid quarterly with final maturity on July 2, 2012. The letter of credit expires in December 2010. As of September 21, 2009, the Series 1991 Bonds were remarketed and there were no amounts outstanding under the letter of credit.

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

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

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, 2009:

<i>(in thousands of dollars)</i>	Capital Leases	Operating Leases
Years Ending		
2010	\$ 1,411	\$ 8,641
2011	1,355	5,035
2012	978	4,175
2013	802	3,008
2014	763	2,980
Thereafter	<u>10,968</u>	<u>20,828</u>
Total minimum lease payments	16,277	<u>\$ 44,667</u>
Less: Amount representing interest	<u>(7,864)</u>	
Present value of net minimum lease payments	<u>\$ 8,413</u>	

Operating lease expense for the rental of property and equipment for the years ended June 30, 2009 and 2008 was approximately \$11,750,000 and \$12,697,000, respectively. Equipment acquired under capital leases during fiscal years 2009 and 2008 was approximately \$1,582,000 and \$0, respectively. Accumulated amortization on capital leases as of June 30, 2009 and 2008 was \$3,699,000 and \$2,915,000, respectively.

Construction 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, 2009, the remaining commitment relating to these contracts was approximately \$114,785,000, of which approximately \$84,741,000 is related to the construction of and for equipment purchases for the Cancer Hospital in Gainesville, Florida. The Cancer Hospital is scheduled to open in November 2009.

Professional Liabilities

Shands participates with other health care providers in the University of Florida J. Hillis Miller Health Center Self-Insurance Program ("UFSIP") and the University of Florida J. Hillis Miller Health Center/Jacksonville Self-Insurance Program ("UFJSIP"). UFSIP and UFJSIP are operating units of the Board of Governors of the State of Florida ("FBOG"). UFSIP and UFJSIP provide occurrence-based coverage to Shands. Insurance in excess of the coverage provided by UFSIP and UFJSIP 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, UFJSIP, 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, UFJSIP, 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.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

Self-Insurance

Shands has a self-insurance plan for health and medical coverage for its employees. Amounts contributed by Shands and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expense related to the self-insured health and medical plan for the years ended June 30, 2009 and 2008 was approximately \$62,107,000 and \$56,165,000, respectively.

Shands is self-insured for workers' compensation up to \$600,000 per occurrence, except for Shands Jacksonville, which is self-insured up to \$500,000 per occurrence. Shands has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes.

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.

8. 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 included in (deficiency) excess of revenues over expenses were approximately \$220,120,000 and \$208,104,000 for the years ended June 30, 2009 and 2008, respectively, of which approximately \$64,124,000 and \$59,309,000 for the years ended June 30, 2009 and 2008, respectively, are expenditures in support of the University of Florida and its medical programs and are included under this caption in the accompanying consolidated statements of operations and changes in net assets. At June 30, 2009 and 2008, approximately \$4,000,000 and \$3,593,000, respectively, were owed to the University of Florida under these agreements and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

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 \$49,738,000 and \$46,365,000 for the years ended June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, approximately \$6,679,000 and \$5,124,000, respectively, were owed to Shands under these agreements and are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

9. 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:

	2009	2008
Medicare	27%	27%
Medicaid	22%	18%
Other third-party payors	50%	54%
Patients	1%	1%
	<u>100%</u>	<u>100%</u>

Certain financial instruments potentially subject Shands to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents and patient accounts receivable. Concentrations of credit risk with respect to patient accounts receivable are limited to Medicare, Medicaid and various commercial payors. Shands places its cash and cash equivalents and investments with what management believes to be high-quality financial institutions and thus limits its credit exposure.

10. Endowment

Shands' endowment consists of individual donor restricted endowment funds and quasi-endowment funds which are internally designated by the Board of Directors for a variety of purposes plus pledges receivable where the assets have been designated for endowment. The net assets associated with endowment funds including funds internally designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Shands had the following endowment activities during the year ended June 30, 2009 delineated by net asset class and donor-restricted versus Board-designated funds:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net asset composition by type of fund as of June 30, 2009				
Donor-restricted endowment fund	\$ -	\$ 8,195	\$ 231	\$ 8,426
Board-designated endowment fund	4,664	-	-	4,664
Total endowment funds	<u>\$ 4,664</u>	<u>\$ 8,195</u>	<u>\$ 231</u>	<u>\$ 13,090</u>
Changes in endowment net assets for the year ended June 30, 2009				
Endowment net assets, beginning of year	\$ 6,101	\$ 10,911	\$ 324	\$ 17,336
Gifts	-	6,845	-	6,845
Appropriation of endowment assets for expenditure	(1,437)	(9,561)	(67)	(11,065)
Change in interest in net assets of University of Florida Foundation, Inc.	-	-	(26)	(26)
Endowment net assets, end of year	<u>\$ 4,664</u>	<u>\$ 8,195</u>	<u>\$ 231</u>	<u>\$ 13,090</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

Permanently restricted net assets

The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation:

Restricted for program support	<u>\$ 231</u>
Total endowment assets classified as permanently restricted net assets	<u>\$ 231</u>
 <i>Temporarily restricted net assets</i>	
Restricted for Cancer Hospital support	\$ 5,146
Restricted for program support	<u>3,049</u>
Total endowment assets classified as temporarily restricted net assets	<u>\$ 8,195</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

11. Financial Instruments

The following methods and assumptions are used by Shands in estimating the fair value of its financial instruments:

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 \$629,013,000 and \$685,343,000 at June 30, 2009 and 2008, respectively. The fair value is approximately \$569,406,000 and \$640,789,000 at June 30, 2009 and 2008, respectively.

12. Subsequent Events

Shands has evaluated subsequent events through September 30, 2009 which is the date that the financial statements were available for issuance.

**Report of Independent Certified Public Accountants
on Accompanying Consolidating Information**

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

The report on our audit of the consolidated financial statements, in which we indicated the extent of our reliance on the report of other auditors, of Shands Teaching Hospital and Clinics, Inc. and Subsidiaries as of June 30, 2009 and for the year then ended appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers 22 P

September 4, 2009

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Balance Sheet
June 30, 2009

(in thousands of dollars)

Assets	Shands UF	Shands AGH	Shands Vista	Shands Rehab Hospital	Eliminations	Total Alachua County Hospital Group	Shands Home Care	Property Management	Shands Lake Shore
Current assets									
Cash and cash equivalents	\$ 120,748	\$ 4	\$ 1	\$ -	\$ -	\$ 120,753	\$ -	\$ -	\$ 1
Investments	170,247	-	-	-	-	170,247	-	-	-
Patient accounts receivable, net	83,821	3,967	3,451	2,295	-	93,534	1,000	-	4,040
Estimated third-party payor settlements	-	6,236	1,218	495	(7,949)	-	-	-	-
Assets limited as to use, current portion	50,712	-	-	-	-	50,712	-	-	-
Prepaid expenses and other current assets	26,493	1,531	556	69	-	28,649	40	11	2,480
Total current assets	452,021	11,738	5,226	2,859	(7,949)	463,895	1,040	11	6,521
Assets limited as to use, less current portion	62,773	-	-	-	-	62,773	-	-	-
Property and equipment									
Land	34,569	2,340	700	400	-	38,009	-	4,968	270
Buildings and leasehold improvements	407,788	69,787	12,273	2,900	-	492,748	948	16,550	14,648
Furniture and equipment	278,344	40,294	1,794	2,773	-	323,205	1,421	22	10,340
	720,701	112,421	14,767	6,073	-	853,962	2,369	21,540	25,258
Less: Accumulated depreciation and amortization	(379,523)	(101,937)	(5,685)	(3,454)	-	(490,599)	(2,014)	(6,438)	(12,058)
Construction in progress	296,549	-	14	-	-	296,563	-	49	275
Property and equipment, net	637,727	10,484	9,096	2,619	-	659,926	355	15,151	13,475
Due from affiliated entities, net	7,488	-	35,543	29,002	(25,919)	46,114	-	-	-
Other assets	28,299	37	1,129	1,479	-	30,944	-	-	4
Total assets	\$ 1,188,308	\$ 22,259	\$ 50,994	\$ 35,959	\$ (33,868)	\$ 1,263,652	\$ 1,395	\$ 15,162	\$ 20,000

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Balance Sheet
June 30, 2009

(in thousands of dollars)

Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Other	Eliminations	Consolidated Subtotal	Shands Jacksonville	Eliminations	Consolidated Total
\$ 2	\$ 1	\$ 4	\$ -	\$ 120,757	\$ 2,187	\$ -	\$ 122,944	\$ 90,997	\$ -	\$ 213,941
-	-	-	-	170,247	438	-	170,685	2,364	-	173,049
3,089	2,179	10,308	-	103,842	-	-	103,842	64,608	-	168,450
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	50,712	-	-	50,712	-	-	50,712
378	379	3,288	-	31,937	247	-	32,184	19,470	(790)	50,864
3,469	2,559	13,600	-	477,495	2,872	-	480,367	177,439	(790)	657,016
-	-	-	-	62,773	-	-	62,773	18,250	-	81,023
165	155	5,558	-	43,567	1,524	-	45,091	27,646	-	72,737
18,402	6,217	56,765	-	549,513	534	-	550,047	274,154	-	824,201
6,103	5,771	23,657	-	346,862	75	-	346,937	230,503	-	577,440
24,670	12,143	85,980	-	939,942	2,133	-	942,075	532,303	-	1,474,378
(8,793)	(6,209)	(35,512)	-	(526,111)	(609)	-	(526,720)	(341,590)	-	(868,310)
2	-	326	-	296,889	-	-	296,889	1,617	-	298,506
15,879	5,934	50,794	-	710,720	1,524	-	712,244	192,330	-	904,574
-	-	-	(46,114)	-	3,304	(3,304)	-	-	-	-
616	420	1,040	-	31,984	3	(438)	31,549	8,279	-	39,828
\$ 19,964	\$ 8,913	\$ 65,434	\$ (46,114)	\$ 1,282,972	\$ 7,703	\$ (3,742)	\$ 1,286,933	\$ 396,298	\$ (790)	\$ 1,682,441

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Balance Sheet
June 30, 2009

(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 Lake Shore
Liabilities and Net Assets									
Current liabilities									
Accounts payable and accrued expenses	\$ 118,982	\$ 7,446	\$ 807	\$ 343	\$ -	\$ 127,578	\$ 481	\$ 199	\$ 4,052
Long-term debt, current portion	13,963	-	-	-	-	13,963	-	-	-
Capital lease obligations, current portion	-	-	-	-	-	-	-	-	56
Estimated third-party payor settlements	41,842	-	-	-	(7,949)	33,893	-	-	1,071
Total current liabilities	174,787	7,446	807	343	(7,949)	175,434	481	199	5,179
Long-term debt, less current portion	509,684	-	-	-	-	509,684	-	-	-
Capital lease obligations, less current portion	-	-	-	-	-	-	-	-	6,452
Due to affiliated entities, net	-	25,919	-	-	(25,919)	-	1,782	8,759	26,109
Other liabilities	147,739	33,710	1,796	3,389	-	186,634	(99)	-	10,146
Total liabilities	832,210	67,075	2,603	3,732	(33,868)	871,752	2,164	8,958	47,886
Commitments and contingencies									
Net assets									
Unrestricted	350,060	(44,851)	48,391	32,227	-	385,827	(769)	6,204	(27,886)
Temporarily restricted	5,941	-	-	-	-	5,941	-	-	-
Permanently restricted	97	35	-	-	-	132	-	-	-
Total net assets	356,098	(44,816)	48,391	32,227	-	391,900	(769)	6,204	(27,886)
Total liabilities and net assets	\$ 1,188,308	\$ 22,259	\$ 50,994	\$ 35,959	\$ (33,868)	\$ 1,263,652	\$ 1,395	\$ 15,162	\$ 20,000

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Balance Sheet
June 30, 2009

(in thousands of dollars)

Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Other	Eliminations	Consolidated Subtotal	Shands Jacksonville	Eliminations	Consolidated Total
\$ 845	\$ 495	\$ 6,072	\$ -	\$ 133,650	\$ 664	\$ (438)	\$ 133,876	\$ 61,124	\$ (790)	\$ 194,210
-	-	-	-	13,963	-	-	13,963	6,810	-	20,773
-	-	56	-	56	-	-	56	777	-	833
294	289	1,654	-	35,547	-	-	35,547	11,477	-	47,024
1,139	784	7,782	-	183,216	664	(438)	183,442	80,188	(790)	262,840
-	-	-	-	509,684	-	-	509,684	98,556	-	608,240
-	-	6,452	-	6,452	-	-	6,452	1,128	-	7,580
11,960	807	49,417	(46,114)	3,303	1	(3,304)	-	-	-	-
4,175	2,780	17,002	-	203,636	-	-	203,636	31,453	-	235,089
17,274	4,371	80,653	(46,114)	906,291	665	(3,742)	903,214	211,325	(790)	1,113,749
2,591	4,542	(15,318)	-	370,509	6,939	-	377,448	182,818	-	560,266
-	-	-	-	5,941	99	-	6,040	2,155	-	8,195
99	-	99	-	231	-	-	231	-	-	231
2,690	4,542	(15,219)	-	376,681	7,038	-	383,719	184,973	-	568,692
\$ 19,964	\$ 8,913	\$ 65,434	\$ (46,114)	\$ 1,282,972	\$ 7,703	\$ (3,742)	\$ 1,286,933	\$ 396,298	\$ (790)	\$ 1,682,441

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2009

(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 Lake Shore
Unrestricted revenues and other support									
Net patient service revenue	\$ 811,508	\$ 127,483	\$ 19,754	\$ 14,409	\$ (1,332)	\$ 971,822	\$ 6,618	\$ -	\$ 36,878
Capitation revenue	-	-	26	-	-	26	-	-	-
Investment income	16,846	11	-	-	-	16,857	-	-	-
Other revenue	43,271	4,168	153	59	-	47,651	-	1,970	5,823
Total unrestricted revenues and other support	871,625	131,662	19,933	14,468	(1,332)	1,036,356	6,618	1,970	42,701
Expenses									
Salaries, wages and benefits	348,005	63,719	12,249	8,304	771	433,048	5,282	(1)	25,026
Supplies and other	340,009	58,110	4,564	3,091	(2,103)	403,671	1,663	1,620	16,439
Interest	11,954	-	-	-	-	11,954	-	(1)	473
Depreciation and amortization	39,066	6,375	802	494	-	46,737	110	600	1,443
Provision for bad debts	58,369	15,604	2,566	943	-	77,482	11	-	4,589
Total expenses	797,403	143,808	20,181	12,832	(1,332)	972,892	7,066	2,218	47,970
Operating income (loss)	74,222	(12,146)	(248)	1,636	-	63,464	(448)	(248)	(5,269)
Nonoperating gains (losses), net	(89)	(55)	-	-	-	(144)	-	-	-
Expenditures in support of the University of Florida and its medical programs	(36,793)	-	-	-	-	(36,793)	-	-	-
Losses, reclassifications and change in fair value of derivative instruments	(16,313)	-	-	-	-	(16,313)	-	-	-
Gains (losses) from early extinguishment of long-term debt, net	27,247	-	-	-	-	27,247	-	-	-
Impairment and restructuring charges	-	(71,922)	-	-	-	(71,922)	-	-	-
Excess (deficiency) of revenues over expenses	\$ 48,274	\$ (84,123)	\$ (248)	\$ 1,636	\$ -	\$ (34,461)	\$ (448)	\$ (248)	\$ (5,269)

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2009

(in thousands of dollars)

Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Other	Eliminations	Consolidated Subtotal	Shands Jacksonville	Eliminations	Consolidated Total
\$ 30,128	\$ 22,293	\$ 95,917	\$ (550)	\$ 1,067,189	\$ -	\$ -	\$ 1,067,189	\$ 469,135	\$ -	\$ 1,536,324
206	-	206	-	232	-	-	232	33,184	-	33,416
-	-	-	-	16,857	-	-	16,857	1,616	-	18,473
1,030	1,598	10,421	(1,119)	56,953	2,754	(242)	59,465	87,667	-	147,132
<u>31,364</u>	<u>23,891</u>	<u>106,544</u>	<u>(1,669)</u>	<u>1,141,231</u>	<u>2,754</u>	<u>(242)</u>	<u>1,143,743</u>	<u>591,602</u>	<u>-</u>	<u>1,735,345</u>
15,398	11,364	57,069	-	490,117	1,068	-	491,185	222,511	500	714,196
7,419	5,791	32,932	(1,669)	434,934	1,362	(242)	436,054	223,783	(500)	659,337
-	-	472	-	12,426	-	-	12,426	2,410	-	14,836
1,305	678	4,136	-	50,873	-	-	50,873	25,900	-	76,773
6,609	4,968	16,177	-	93,659	-	-	93,659	79,736	-	173,395
<u>30,731</u>	<u>22,801</u>	<u>110,786</u>	<u>(1,669)</u>	<u>1,082,009</u>	<u>2,430</u>	<u>(242)</u>	<u>1,084,197</u>	<u>554,340</u>	<u>-</u>	<u>1,638,537</u>
633	1,090	(4,242)	-	59,222	324	-	59,546	37,262	-	96,808
6	-	6	-	(138)	-	-	(138)	1,343	-	1,205
-	-	-	-	(36,793)	-	-	(36,793)	(27,331)	-	(64,124)
-	-	-	-	(16,313)	-	-	(16,313)	(600)	-	(16,913)
-	-	-	-	27,247	-	-	27,247	-	-	27,247
-	-	-	-	(71,922)	-	-	(71,922)	-	-	(71,922)
<u>\$ 639</u>	<u>\$ 1,090</u>	<u>\$ (4,236)</u>	<u>\$ -</u>	<u>\$ (38,697)</u>	<u>\$ 324</u>	<u>\$ -</u>	<u>\$ (38,373)</u>	<u>\$ 10,674</u>	<u>\$ -</u>	<u>\$ (27,699)</u>

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2009

(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 Lake Shore
Unrestricted net assets									
Excess (deficiency) of revenues over expenses	\$ 48,274	\$ (84,123)	\$ (248)	\$ 1,636	\$ -	\$ (34,461)	\$ (448)	\$ (248)	\$ (5,269)
Pension-related changes other than net periodic pension cost	(66,611)	(19,391)	(1,026)	(1,959)	-	(88,987)	103	-	(5,859)
Change in net unrealized gains and losses on other than trading securities	(51,372)	-	-	-	-	(51,372)	-	-	-
Change in fair value of derivative instruments designated as cash flow hedges	(1,036)	-	-	-	-	(1,036)	-	-	-
Reclassification to excess (deficiency) of revenues over expenses of accumulated loss related to terminated derivative instrument designated as a cash flow hedge and derivative instrument no longer designated as a cash flow hedge	(9,274)	-	-	-	-	(9,274)	-	-	-
Contributions received for equipment purchases and net assets released from restrictions	10,762	2	-	-	-	10,764	-	-	754
(Decrease) increase in unrestricted assets	(69,257)	(103,512)	(1,274)	(323)	-	(174,366)	(345)	(248)	(10,374)
Temporarily restricted net assets									
Contributions	5,942	-	-	-	-	5,942	-	-	-
Net assets released from restrictions	(9,434)	-	-	-	-	(9,434)	-	-	-
(Decrease) increase in temporarily restricted net assets	(3,492)	-	-	-	-	(3,492)	-	-	-
Permanently restricted net assets									
(Decrease) in permanently restricted net assets	(53)	(14)	-	-	-	(67)	-	-	-
(Decrease) increase in net assets	(72,802)	(103,526)	(1,274)	(323)	-	(177,925)	(345)	(248)	(10,374)
Net assets									
Beginning of year	428,900	58,710	49,665	32,550	-	569,825	(424)	6,452	(17,512)
End of year	\$ 356,098	\$ (44,816)	\$ 48,391	\$ 32,227	\$ -	\$ 391,900	\$ (769)	\$ 6,204	\$ (27,886)

Shands Teaching Hospital and Clinics, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2009

(in thousands of dollars)

Shands Starke	Shands Live Oak	Subtotal Other	Eliminations	Total Obligated Group	Other	Eliminations	Consolidated Subtotal	Shands Jacksonville	Eliminations	Consolidated Total
\$ 639	\$ 1,090	\$ (4,236)	\$ -	\$ (38,697)	\$ 324	\$ -	\$ (38,373)	\$ 10,674	\$ -	\$ (27,699)
(2,413)	(1,608)	(9,777)	-	(98,764)	-	-	(98,764)	(4,393)	-	(103,157)
-	-	-	-	(51,372)	-	-	(51,372)	-	-	(51,372)
-	-	-	-	(1,036)	-	-	(1,036)	-	-	(1,036)
-	-	-	-	(9,274)	-	-	(9,274)	-	-	(9,274)
<u>105</u>	<u>117</u>	<u>976</u>	<u>-</u>	<u>11,740</u>	<u>-</u>	<u>-</u>	<u>11,740</u>	<u>1,127</u>	<u>(1,000)</u>	<u>11,867</u>
<u>(1,669)</u>	<u>(401)</u>	<u>(13,037)</u>	<u>-</u>	<u>(187,403)</u>	<u>324</u>	<u>-</u>	<u>(187,079)</u>	<u>7,408</u>	<u>(1,000)</u>	<u>(180,671)</u>
-	-	-	-	5,942	99	-	6,041	804	-	6,845
-	-	-	-	(9,434)	-	-	(9,434)	(1,127)	1,000	(9,561)
-	-	-	-	(3,492)	99	-	(3,393)	(323)	1,000	(2,716)
(26)	-	(26)	-	(93)	-	-	(93)	-	-	(93)
<u>(1,695)</u>	<u>(401)</u>	<u>(13,063)</u>	<u>-</u>	<u>(190,988)</u>	<u>423</u>	<u>-</u>	<u>(190,565)</u>	<u>7,085</u>	<u>-</u>	<u>(183,480)</u>
<u>4,385</u>	<u>4,943</u>	<u>(2,156)</u>	<u>-</u>	<u>567,669</u>	<u>6,615</u>	<u>-</u>	<u>574,284</u>	<u>177,888</u>	<u>-</u>	<u>752,172</u>
<u>\$ 2,690</u>	<u>\$ 4,542</u>	<u>\$ (15,219)</u>	<u>\$ -</u>	<u>\$ 376,681</u>	<u>\$ 7,038</u>	<u>\$ -</u>	<u>\$ 383,719</u>	<u>\$ 184,973</u>	<u>\$ -</u>	<u>\$ 568,692</u>