

## SHANDS JACKSONVILLE HEALTHCARE, INC.

## BALANCE SHEET

For the Period Ended March 31, 2011

(Dollars in Thousands)

|   | March 31,<br>2011 |
|---|-------------------|
| Current Assets:   |                   |
| Cash and Cash Equivalents   | \$ 46,333         |
| Short Term Investments  | 74,220            |
| Patient accounts receivable, net of<br>estimated uncollectibles of \$58,656       | 72,319            |
| Inventories   | 9,132             |
| Due from non-patient accounts   | 17,970            |
| Prepaid expenses and other assets   | 4,690             |
| Designated assets required for current liabilities                                | 2,307             |
| Total current assets  | 226,970           |
| Property and Equipment, net   | 161,312           |
| Assets whose use is limited:  |                   |
| Invested cash:  |                   |
| Held in trust   | 2,307             |
| Board Designated Funds  | 19,500            |
| Total assets whose use is limited   | 21,807            |
| Less assets whose use is limited and that<br>are required for current liabilities | (2,307)           |
| Non-current assets whose use is limited   | 19,500            |
| Other assets:   |                   |
| Unamortized bond issuance costs   | 2,096             |
| Deferred charges and other assets   | 15,520            |
| Total other assets  | 17,616            |
| <b>Total Assets</b>   | <b>\$ 425,398</b> |
| Current Liabilities:  |                   |
| Long-term debt, current portion   | \$ 9,154          |
| Accounts payable  | 34,137            |
| Accrued expenses:   |                   |
| Salaries payable  | 10,154            |
| Leave payable   | 12,816            |
| Interest payable  | 705               |
| Patient credit balances   | 1,473             |
| Due to Medicare, Medicaid, and other third-party programs, net                    | 23,979            |
| Total current liabilities   | 92,418            |
| Long-term Liabilities:  |                   |
| Long-term debt, non-current portion   | 125,447           |
| Other long-term liabilities   | 10,200            |
| Total long-term liabilities   | 135,647           |
| Total liabilities   | 228,065           |
| Net assets:   |                   |
| Invested in capital assets, net of related debt                                   | 69,185            |
| Restricted:   |                   |
| Nonexpendable   | -                 |
| Expendable  | 2,950             |
| Unrestricted  | 125,198           |
| Total net assets  | 197,333           |
| <b>Total Liabilities and Net Assets</b>   | <b>\$ 425,398</b> |

**Shands Jacksonville Healthcare, Inc.**  
**Statement of Revenues and Expenses**  
**For the Period Ended March 31, 2011**  
**(Dollars in Thousands)**

|   | March 31,<br>2011 |
|---|-------------------|
| <b>Unrestricted revenue and other support</b>               |                   |
| Net patient service revenue                                 | \$ 380,690        |
| Other revenue   | 18,171            |
| Total unrestricted revenue and other support                | <u>398,861</u>    |
| <b>Expenses</b>   |                   |
| Salaries, wages and benefits                                | 184,742           |
| Supplies and other  | 171,627           |
| Depreciation and amortization                               | 16,615            |
| Total expenses  | <u>372,985</u>    |
| Gross margin  | 25,876            |
| Change in fair value of derivative instruments              | 263               |
| Investment Income   | 1,575             |
| Gain on disposal of fixed assets                            | 5,379             |
| Nonoperating gains (losses) and contributions, net          | <u>(2,815)</u>    |
| Excess (deficiency) of revenue over expenses                | <u>\$ 30,278</u>  |
| Transfers to University of Florida and its medical programs | (19,700)          |
| Pension-related changes other than periodic net cost        | 41,473            |
| Other postretirement benefit-related changes                | (137)             |
| Donor restricted funds received for equipment purchases     | 180               |
| Note Payable  | <u>(42,276)</u>   |
| Change in net assets  | <u>\$ 9,818</u>   |

**SHANDS JACKSONVILLE HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Period Ended March 31, 2011**  
**(Dollars in Thousands)**

|   | March 31,<br>2011 |
|---|-------------------|
| <b>Cash Flows from Operating Activities:</b>                          |                   |
| Cash received from patients and third-party payors                    | \$ 369,336        |
| Other receipts from operations  | 20,523            |
| Salaries, wages and benefits paid to employees                        | (188,036)         |
| Payments to suppliers and vendors                                     | (188,838)         |
| <b>Net cash provided by operating activities</b>                      | <b>12,985</b>     |
| <b>Cash Flows from Capital and Related Financing Activities:</b>      |                   |
| Purchase of capital assets  | (5,659)           |
| Proceeds from disposal of capital assets                              | 11,845            |
| Payments of Interest, Bonds, Notes, and Capital Leases                | (9,648)           |
| Increase in assets whose use is limited, net                          | (2,932)           |
| Capital contributions (grants and other)                              | 330               |
| <b>Net cash used in capital and related financing activities</b>      | <b>(6,064)</b>    |
| <b>Cash Flows from Investing Activities:</b>                          |                   |
| Investment income received  | 1,575             |
| Increase in Investments   | (1,320)           |
| Payments in support of University of Florida and its medical programs | (19,700)          |
| Other Investing activity  | 263               |
| <b>Net cash used in investing activities</b>                          | <b>(19,182)</b>   |
| <b>Net Decrease in Cash and Cash Equivalents</b>                      | <b>(12,261)</b>   |
| <b>Cash and Cash Equivalents (Beginning of Year)</b>                  | <b>58,593</b>     |
| <b>Cash and Cash Equivalents (End of Period)</b>                      | <b>\$ 46,333</b>  |
| <b>Total Operating Income</b>   | <b>\$ 25,876</b>  |
| Depreciation and amortization   | 16,615            |
| Provision for bad debts   | 61,126            |
| (Increase) decrease in assets and liabilities:                        |                   |
| Patient accounts receivable   | (71,746)          |
| Prepaid expenses and other current assets                             | (1,673)           |
| Deferred charges and other non-current assets                         | (10,100)          |
| Accounts payable and accrued expenses                                 | (8,268)           |
| Due to Medicare, Medicaid and other third-party programs              | (1,194)           |
| Other long-term liabilities   | 2,350             |
| <b>Net cash provided by operating activities</b>                      | <b>\$ 12,985</b>  |

**SHANDS JACKSONVILLE HEALTHCARE, INC.**  
**FINANCIAL COVENANTS**  
For the Periods Ended March 31, 2011 and Year Ending June 30, 2010  
(Dollars In Thousands)

|   | SJHC*<br>YTD '11 | SJMC**<br>YTD '11 | 2011 Covenant<br>Requirement | Compliance | SJHC* FYE<br>June '10 | SJMC** FYE<br>June '10 |
|---|------------------|-------------------|------------------------------|------------|-----------------------|------------------------|
| Minimum Working Capital                   | \$ 134,552       | \$ 124,871        | \$ 10,000                    | Yes        | \$ 123,556            | \$ 121,411             |
| Minimum Debt Service Coverage Ratio       | 3.64             | 4.21              | 1.10                         | Yes        | 4.88                  | 8.61                   |
| Minimum Tangible Unrestricted Net Assets  | \$ 194,382       | \$ 193,803        | \$ 60,000                    | Yes        | \$ 184,564            | \$ 194,569             |
| Maximum Total Debt to Capitalization      | 40.9%            | 36.3%             | 65.0%                        | Yes        | 35.2%                 | 26.8%                  |
| Minimum Days of Unrestricted Cash on Hand | 87.01            | 81.61             | 50.00                        | Yes        | 97.96                 | 96.63                  |

\* Shands Jacksonville Healthcare, Inc.

\*\* Shands Jacksonville Medical Center Obligated Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shands Jacksonville HealthCare, Inc. and Subsidiaries  
For the Nine Months Ending March 31, 2011 (Unaudited)

## **1. Organization**

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

Shands Jacksonville Medical Center, Inc. (SJMC), formerly known as University Medical Center, Inc. (UMC), is a Florida not-for-profit corporation and the principal operating subsidiary of SJH. SJMC operates a teaching hospital located in Jacksonville, Florida, through a lease with the City of Jacksonville (the City).

On September 30, 1999, Methodist Medical Center, Inc., Methodist Health System, Inc. and The Methodist Hospital Foundation, Inc. (collectively, Methodist), SJH, UMC and Shands Teaching Hospital and Clinics, Inc. (Shands) completed an affiliation agreement (the Affiliation) which allowed for the combination of the hospital operations of UMC and Methodist under SJMC. SJH became the sole member of both SJMC and Methodist.

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

Effective September 8, 2010, the Board of Trustees of Shands approved a motion to reorganize its corporate structure. Under the reorganization, Shands will no longer be the sole corporate member of the Company, but the Company will continue as an affiliated entity under common control with the University of Florida. The Company will continue to receive management and operational services from Shands. As a part of the reorganization, the Company delivered a promissory note to Shands in the amount of approximately \$42,276,000, payable over 20 years, in acknowledgement of historical investments in the Company.

The accompanying consolidated financial statements include the accounts of SJH, SJMC, Methodist and other subsidiaries of SJH as of and for the nine months ended March 31, 2011. The Company in these financial statements refers to the consolidated operations of these entities. Significant transactions between these entities have been eliminated.

## **Basis of Presentation**

After reassessing its articles of incorporation and bylaws, the Company determined that it meets the definition of a governmental entity and thus, should apply GAAP applicable to governmental entities. At fiscal year-end June 30, 2010, Level A GAAP applicable for governmental business-type activities, such as hospitals, consisted of both GASB standards and FASB standards. It was expected that during 2010 GASB would issue a final standard that would result in significant changes to the GASB hierarchy. In light of the expected change, the Company determined it would convert to governmental GAAP during its fiscal year ending June 30, 2011. On December 31, 2010, GASB issued Statement No. 62: Codification of Accounting and Financial Reporting Guidance

Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged.

While the Company still anticipates early adoption, review of GASB Statement No. 62 is ongoing. Presently, amounts related to derivatives, pension and other postemployment benefits follow GASB guidance.

### **Single-Year Presentation**

Because the above impacts reflect the estimated cumulative effect of the adoption of GASB reporting standards based on the June 30, 2010 measurement date, the Company has elected to present single-year financial results for the fiscal 2010-2011 period.

### **Commitments and Contingencies**

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