

**SHANDS JACKSONVILLE HEALTHCARE, INC.**  
**CONSOLIDATED BASIC STATEMENT OF NET ASSETS**  
**For the Periods Ended September 30, 2011 and June 30, 2011**  
**(Dollars in Thousands)**

	September 30, 2011	June 30, 2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 28,854	\$ 52,515
Short-term investments	75,964	74,917
Patient accounts receivable, net of estimated uncollectibles   64,631 and 65,427	78,128	65,911
Due from city and state agencies	16,193	7,358
Inventories	9,391	9,429
Prepaid expenses and other current assets	10,609	6,521
Assets limited as to use, current portion	4,614	3,460
Total current assets	<u>223,753</u>	<u>220,111</u>
Assets limited as to use, less current portion	19,500	19,500
Capital assets, net	157,197	161,359
Other assets	20,783	17,752
Total assets	<u>\$ 421,233</u>	<u>\$ 418,722</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Long-term debt, current portion	\$ 8,593	\$ 8,578
Capital lease obligation, current portion	373	487
Accounts payable and accrued expenses	37,718	37,820
Accrued salaries and leave payable	23,912	22,538
Estimated third-party payor settlements	23,115	22,988
Total current liabilities	<u>93,711</u>	<u>92,411</u>
Long-term liabilities		
Long-term debt, non-current portion	124,345	124,687
Capital lease obligation, non-current portion	259	341
Other liabilities	8,884	7,894
Total long-term liabilities	<u>133,488</u>	<u>132,922</u>
Total liabilities	<u>227,199</u>	<u>225,333</u>
Net assets		
Invested in capital assets, net of related debt	65,392	69,388
Restricted		
Expendable	2,921	3,006
Unrestricted	125,721	120,995
Total net assets	<u>194,034</u>	<u>193,389</u>
Total liabilities and net assets	<u>\$ 421,233</u>	<u>\$ 418,722</u>

**SHANDS JACKSONVILLE HEALTHCARE, INC.**  
**CONSOLIDATED BASIC STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Periods Ended September 30, 2011 and 2010**  
**(Dollars in Thousands)**

	September 30, 2011	September 30, 2010
<b>Operating revenues</b>		
Net patient service revenue (net of provision for bad debts of \$17,442 and 18,569)	\$ 127,083	\$ 127,459
Other operating revenue	6,970	5,299
Total operating revenues	<u>134,053</u>	<u>132,758</u>
<b>Operating expenses</b>		
Salaries and benefits	63,485	60,361
Supplies and services	57,302	57,384
Depreciation and amortization	5,357	5,659
Total operating expenses	<u>126,144</u>	<u>123,404</u>
Operating income	<u>7,909</u>	<u>9,354</u>
<b>Nonoperating revenues (expenses)</b>		
Other nonoperating losses	(1,776)	(1,079)
Net investment gain, including change in fair value	1,103	1,324
Gain on disposal of capital assets, net	20	-
Total nonoperating revenues (expenses)	<u>(653)</u>	<u>245</u>
Excess of revenues over expenses before transfers, capital contributions and other changes in net assets	7,256	9,599
Transfers and expenditures in support of the University of Florida and its medical programs	(6,653)	(6,479)
Capital contributions, net	42	88
Other changes in net assets	<u>-</u>	<u>(42,276)</u>
Increase (decrease) in net assets	645	(39,068)
<b>Net assets</b>		
Beginning of year, as restated	193,389	228,702
End of year	<u>\$ 194,034</u>	<u>\$ 189,634</u>

**SHANDS JACKSONVILLE HEALTHCARE, INC.**  
**CONSOLIDATED BASIC STATEMENT OF CASH FLOWS**  
**For the Periods Ended September 30, 2011 and June 30, 2011**  
**(Dollars in Thousands)**

	September 30, 2011	June 30, 2011
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 106,157	\$ 500,069
Other receipts from operations	5,765	22,930
Salaries and benefits paid to employees	(65,849)	(259,428)
Payments to suppliers and vendors	(59,361)	(229,173)
Net cash (used) provided by operating activities	(13,288)	34,398
<b>Cash flows from noncapital financing activities</b>		
Interest paid	(468)	(969)
Payments in support of the University of Florida and its medical programs	(6,653)	(26,647)
Payments of long-term debt	(336)	(640)
Net used in noncapital financing activities	(7,457)	(28,256)
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(1,196)	(10,605)
Proceeds from sale of capital assets	20	11,520
Payments of long-term debt and capital lease obligations	(185)	(7,743)
Interest paid	(490)	(1,968)
Capital contributions	42	206
Net cash used in capital and related financing activities	(1,809)	(8,590)
<b>Cash flows from investing activities</b>		
Investment income received	1,301	2,239
Purchase of short-term investments and assets limited as to use, net	(2,408)	(5,869)
Net cash used in investing activities	(1,107)	(3,630)
Net decrease in cash and cash equivalents	(23,661)	(6,078)
<b>Cash and cash equivalents</b>		
Beginning of year	52,515	58,593
End of period	\$ 28,854	\$ 52,515

**SHANDS JACKSONVILLE HEALTHCARE, INC.**  
**CONSOLIDATED BASIC STATEMENT OF CASH FLOWS**  
**For the Periods Ended September 30, 2011 and June 30, 2011**  
**(Dollars in Thousands)**

	September 30, 2011	June 30, 2011
<b>Reconciliation of change in net assets to net cash provided by operating activities</b>		
Operating income	\$ 7,909	\$ 27,191
Adjustments to operating income to net cash provided by operating activities		
Depreciation and amortization	5,357	22,299
Provision for bad debts	17,442	88,874
(Increase) decrease in assets:		
Patient accounts receivable	(38,493)	(95,029)
Prepaid expenses, inventory and other current assets	(4,075)	2,082
Other assets	(3,293)	(10,302)
Accounts payable and accrued expenses	1,632	(7,172)
Estimated third-party payor settlements	126	4,264
Other liabilities	107	2,191
Total adjustments	(21,197)	7,207
Net cash (used) provided by operating activities	\$ (13,288)	\$ 34,398

**Shands Jacksonville Healthcare, Inc.**  
**Financial Covenants**  
**For the Periods Ended September 30, 2011 and Year Ending June 30, 2011**  
**(in thousands)**

	SJHC* YTD '12	SJMC** YTD '12	2012 Covenant Requirement	Compliance	SJHC* FYE June '11	SJMC** FYE June '11
Minimum Working Capital	\$ 130,042	\$ 120,613	\$ 10,000	Yes	\$ 127,699	\$ 118,269
Minimum Historical Debt Service Coverage Ratio	2.29	3.23	1.20	Yes	2.59	2.72
Minimum Prospective Debt Service Coverage Ratio	2.22	3.10	1.10	Yes	2.43	2.48
Minimum Tangible Unrestricted Net Assets	\$ 191,112	\$ 191,058	\$ 60,000	Yes	\$ 190,467	\$ 190,152
Maximum Total Debt to Capitalization	41.1%	36.4%	65.0%	Yes	41.3%	36.6%
Minimum Days of Unrestricted Cash on Hand	79.64	73.40	50.00	Yes	90.44	84.77

\* Shands Jacksonville Healthcare, Inc.

\*\* Shands Jacksonville Medical Center Obligated Group

# **Shands Jacksonville HealthCare, Inc. and Subsidiaries**

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

### **September 30, 2011**

This section of the Shands Jacksonville HealthCare, Inc. and Subsidiaries ("SJH" or the "Company") quarterly financial report presents the Company's analysis of its financial performance as of September 30, 2011. Please read this analysis in conjunction with the consolidated basic financial statements, which follow this section.

#### **Introduction**

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

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

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

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

Effective September 8, 2010, the Board of Directors of Shands approved a motion to reorganize its corporate structure. Under the reorganization, Shands will no longer be the sole corporate member of the Company, but will continue as an affiliated entity under common control of the University of Florida. Effective September 27, 2010, the Board of Directors of the Company approved the motion for Shands to no longer be the sole corporate member of the Company. The Company continues to receive management and operational services from Shands. As a part of the reorganization, the Company delivered a promissory note to Shands in the amount of approximately \$42,276,000, payable over 20 years, in acknowledgement of historical investments in the Company.

The accompanying consolidated basic financial statements include the accounts of SJH, SJMC, Methodist and other subsidiaries of SJH as of and for the quarter ended September 30, 2011. The "Company" in these consolidated basic financial statements refers to the consolidated operations of these entities. Significant transactions between these entities have been eliminated.

After reassessing its articles of incorporation and bylaws, the Company determined that it meets the definition of a governmental entity and thus adopted Governmental Accounting Standards Board ("GASB") financial reporting. Previously, the Company utilized Financial Accounting Standards Board ("FASB") financial reporting. The primary consolidated basic financial statement items affected by the change in accounting treatment are pension liabilities, postemployment benefits, and related effects to net assets. These changes have been presented as if GASB was effective prior to July 1, 2010. Due to the differences in accounting treatment and presentation of results, it is management's determination that it is not practical to present the consolidated basic financial statements reflecting three periods of comparative information. As such, the Company is presenting financial results for the quarter ending September 30, 2011 for two comparative periods.

# Shands Jacksonville HealthCare, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### September 30, 2011

This section of the Company's financial statements presents analysis of the financial condition, the results of operations and cash flows for the quarter ending September 30, 2011.

#### Overview of the Consolidated Basic Financial Statements

Along with management's discussion and analysis, the quarterly financial report includes consolidated basic financial statements of the Company.

#### Consolidated Basic Statement of Net Assets

The consolidated basic statement of net assets presents the financial position of the Company as of September 30, 2011 and June 30, 2011 and includes all assets and liabilities of the Company. The Company's net assets, or the difference between total assets and total liabilities, are one indicator of the current financial condition of the Company. Changes in net assets are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. Assets and liabilities are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

A summary of the Company's condensed consolidated basic statement of net assets at September 30, 2011 and June 30, 2011 is presented below:

(in thousands of dollars)	September 30, 2011	June 30, 2011
Cash and short-term investments	\$ 104,818	\$ 127,432
Other current assets	118,935	92,679
Capital assets, net	157,197	161,359
Other noncurrent assets	40,283	37,252
Total assets	<u>\$ 421,233</u>	<u>\$ 418,722</u>
Current liabilities	\$ 93,710	\$ 92,411
Noncurrent liabilities	133,488	132,922
Total liabilities	<u>227,198</u>	<u>225,333</u>
Net assets		
Invested in capital assets, net of related debt	65,392	69,388
Restricted:		
Nonexpendable	-	-
Expendable	2,921	3,006
Unrestricted	125,721	120,995
Total net assets	<u>194,034</u>	<u>193,389</u>
Total Liabilities and Net Assets	<u>\$ 421,232</u>	<u>\$ 418,722</u>

## **Shands Jacksonville HealthCare, Inc. and Subsidiaries**

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

#### **September 30, 2011**

Cash and cash equivalents and short-term investments decreased by approximately \$22.6 million since June 30, 2011. See "Consolidated Basic Statement of Cash Flows" section below for further information regarding cash activity.

Other current assets increased by approximately \$26.3 million since June 30, 2011 due primarily to growth in net patient accounts receivable (approximately \$12.2 million), due from city and state agencies (approximately \$8.8 million) and prepaid expenses (approximately \$4.0 million).

Capital assets, net, decreased approximately \$4.2 million since June 30, 2011 primarily from routine annual depreciation.

Other noncurrent assets were primarily affected by contributions to the pension plan.

Other current liabilities did not experience a significant change in total since June 30, 2011. As previously noted, as part of the corporate restructuring the Company recorded a \$42.3 million note payable to Shands in fiscal year 2011. The current portion due Shands is reflected in the other current liabilities in both quarters reported. Additionally, accrued salaries and leave payable increased approximately \$1.4 million. The salary accrual was for only 5 days at fiscal year ended 2011 versus 13 days at September 30, 2011.

Other noncurrent liabilities did not experience a significant change in total since fiscal year 2011.

As of September 30, 2011, the Company has approximately \$132.9 million in debt outstanding compared to approximately \$133.3 million at June 30, 2011. The long-term debt is comprised of a number of bond issues and a promissory note. The promissory note for \$42.3 million, as mentioned above, was recorded by the Company during fiscal year 2011. During 2010, the Series 2008 Bonds were converted from variable to index rate bonds, which are now held in their entirety by Wells Fargo Bank, during the initial index rate period. The Series 2005 Bonds are variable rate bonds, which are backed by a bank letter of credit from TD Bank issued during 2010 for approximately \$29,000,000, which expires in October 2015 (coterminous with the maturity of the bonds). No amounts were outstanding under this letter of credit at either September 30, 2011 or June 30, 2011.



# Shands Jacksonville HealthCare, Inc. and Subsidiaries

## Management's Discussion and Analysis (Unaudited)

### September 30, 2011

#### Consolidated Basic Statement of Revenues, Expenses and Changes in Net Assets

The following table presents the Company's condensed consolidated basic statement of revenues, expenses and changes in net assets for the quarters ended September 30, 2011 and 2010. The table presents the extent to which the Company's overall net assets increased during the quarters as a result of operations or other reasons, with the exception of the impact of the GASB conversion on pension and postemployment benefits, which were an adjustment to opening July 1, 2010 net assets.

(in thousands of dollars)	September 30, 2011	September 30, 2010
Net patient service revenue	\$ 127,083	\$ 127,459
Other revenue	6,970	5,299
Total operating revenues	134,053	132,758
Operating expenses	126,144	123,404
Operating Income	7,909	9,354
Nonoperating revenues, net	(653)	245
Excess of revenues over expenses	7,256	9,599
Other changes in net assets:		
Transfers to University of Florida and its medical programs	(6,653)	(6,479)
Donor restricted funds received for equipment purchases	42	88
Other changes in net assets	-	(42,276)
Increase (decrease) in net assets	\$ 645	\$ (39,068)

#### Patient Volumes

Compared to the first quarter, prior year, inpatient and outpatient volumes increased. The following table reflects the associated volumes on a comparative basis to the prior year:

	September 30, 2011	September 30, 2010	Net Change	% Change
Inpatient admissions	7,399	7,002	397	5.4%
Outpatient visits	87,433	85,027	2,046	2.8%

Inpatient admissions compared to the prior year have increased by 397 or 5.4%. This increase is largely the result of the opening of three new primary care offices which has increased IP referrals. Total outpatient visits have increased by 2.8%. The Increase in the ancillary visits over prior year was partially offset by a reduction in hospital based Clinic visits.

# **Shands Jacksonville HealthCare, Inc. and Subsidiaries**

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

### **September 30, 2011**

#### *Operating Revenues*

Patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, of approximately \$127.0 million, was flat in comparison to quarter end September 30, 2010. Revenue increases associated with higher volumes and reimbursement rates were offset by decreases in state funding. Other operating revenues of approximately \$7.0 million, is approximately \$1.7 million, or 32.0%, higher than the prior year, primarily due to increased Provider Service Network Medicaid enrollment.

#### *Operating Expenses*

Operating expenses of approximately \$126.1 million represents a 2.2% increase compared to quarter end September 30, 2010. This is primarily related to increases in salaries, wages and benefits for the following: additional staffing corresponding to the increase in patient volume; an average wage increase of 2%; increased employee and retiree medical claims expense.

#### *Nonoperating Revenues, Net*

Nonoperating expenses, net for quarter end September 20, 2011 were approximately \$0.7 million. Interest expense of approximately \$0.9 million is included in nonoperating expenses, net, in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Investment income totaled approximately \$0.6 million. The fair value increase for investments is \$0.5 million and the fair value decrease for derivatives is approximately \$0.9 million.

#### **Consolidated Basic Statement of Cash Flows**

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

Total cash and cash equivalents decreased in the first quarter of fiscal year 2012 by approximately \$23.7 million. Amounts due from City and State agencies are \$16.2 million at September 30, 2011 as compared to \$7.4M at June 30, 2011. Capital asset acquisition during the first quarter of fiscal year 2012 totaled approximately \$1.2 million. Payment of principal on long-term debt and capital lease obligations were approximately \$0.5 million. The Company also funded the employee pension plan by approximately \$2.2 million during the first quarter of fiscal year 2012.

#### *Credit Ratings*

The Company has received an underlying credit rating of Baa1 from Moody's Investor Services, with an assigned outlook of "Stable". This rating was affirmed in June 2010.