Shands Jacksonville HealthCare, Inc. and Subsidiaries

Reports on Federal and State Awards in Accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*
June 30, 2011

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June 30, 2011

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

Introduction

Shands 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 year ended June 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 prior year comparative information.

As such, the Company is presenting financial results for the fiscal year ending June 30, 2011 in single-year format. Management will make reference in its discussion and analysis to certain financial results not impacted by the GASB to FASB conversion. Comparative analysis will be presented in future years' consolidated basic financial statements.

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

Overview of the Consolidated Basic Financial Statements

Along with management's discussion and analysis, the annual financial report includes the independent certified public accountants' report, and the consolidated basic financial statements of the Company. The consolidated basic financial statements also include notes that explain in more detail some of the information in the consolidated basic financial statements. By referring to the accompanying notes to the consolidated basic financial statements, a broader understanding of issues impacting financial performance can be realized.

Consolidated Basic Statement of Net Assets

The consolidated basic statement of net assets presents the financial position of the Company as of 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 June 30, 2011 is presented below:

(in thousands of dollars)

Cash and cash equivalents and short-term investments	$ 127,432
Other current assets	92,679
Capital assets, net	161,359
Other noncurrent assets	37,252
Total assets	$ 418,722
Current liabilities	$ 92,411
Noncurrent liabilities	132,922
Total liabilities	225,333
Net assets	
Invested in capital assets, net of related debt	69,388
Restricted:	
Expendable	3,006
Unrestricted	120,995
Total net assets	193,389
Total liabilities and net assets	$ 418,722

Cash and cash equivalents and short-term investments decreased by approximately $4.4 million since June 30, 2010. See "Consolidated Basic Statement of Cash Flows" section below for further information regarding cash activity.

Other current assets increased by approximately $7.3 million since June 30, 2010 due primarily to growth in net patient accounts receivable (approximately $4.2 million) and a new bond sinking fund requirement (approximately $3.5 million).

Capital assets, net, decreased approximately $17.4 million since June 30, 2010 primarily from routine annual depreciation and the sale of property (approximately $5.1 million) to the Veteran's Administration for the building of a new outpatient clinic.

Other noncurrent assets were primarily affected by the change from FASB to GASB as it related to accounting treatment of pension activity.

Other current liabilities did not experience a significant change in total during fiscal year 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. Additionally, amounts due to third-party programs increased approximately $4.3 million while accounts and salaries payable decreased approximately $6.4 million. The salary accrual was for only 5 days at fiscal year ended 2011 versus 18 days in 2010.

Other noncurrent liabilities and net assets were primarily affected by the new note payable to Shands and the change from FASB to GASB as it related to the accounting treatment of pension and postemployment benefits, which had a combined favorable impact on net assets of approximately $43.6 million.

As of June 30, 2011, the Company has approximately $133.3 million in debt outstanding compared to approximately $98.6 million the previous year. The long-term debt is comprised of a number of bond issues and a promissory note, described in more detail in Note 11 to the consolidated basic financial statements. 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 issued during 2010 for approximately $29,000,000, which expires in October 2015. No amounts were outstanding under this letter of credit at June 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 year ended June 30, 2011. The table presents the extent to which the Company's overall net assets decreased during the year 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)

Net patient service revenue	$ 501,960
Other revenue	24,621
Total operating revenues	526,581
Operating expenses	499,390
Operating Income	27,191
Nonoperating revenues, net	3,991
Excess of revenues over expenses before transfers, capital contributions, and note payable to Shands	31,182
Other changes in net assets:	
Transfers and expenditures to the University of Florida and its medical programs	(26,647)
Capital contributions, net	206
Note payable to Shands	(42,276)
Decrease in net assets	$ (37,535)

Patient Volumes

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

	2011	2010	Net Change	% Change
Inpatient admissions	28,644	28,550	94	0.3%
Outpatient visits	339,486	339,069	417	0.1%

Inpatient admissions compared to the prior year were slightly lower with a decrease of 40 (less than 1%) offset by an increase in Skilled Nursing admissions of 134 (25%). The increase in Skilled Nursing admissions is the result of a mid-year expansion of 16 beds in fiscal year 2010, which were open all of fiscal year 2011. Total outpatient visits were unchanged with a decrease in hospital emergency room and trauma visits offset by increased outpatient ancillary visits with the opening of expanded ancillary services at the Emerson location during fiscal year 2011.

Operating Revenues

Patient service revenue, net of allowances for contractual discounts, charity care and bad debt expense, of approximately $502.0 million, was flat in comparison to fiscal year 2010. Revenue increases associated with higher volumes and reimbursement rates were offset by decreases in state funding. Other operating revenues of approximately $24.6 million, is approximately $3.3 million, or 15.5%, higher than the prior year, primarily due to increased Provider Service Network enrollment.

Operating Expenses

Operating expenses of approximately $499.4 million represents a 4.6% increase from fiscal year 2010. This is primarily related to increases in salaries, wages and benefits for the following: additional staffing corresponding to the increase in patient days; an average wage increase of 2%; increased employee and retiree medical claims expense and a pension cost increase primarily associated with the conversion from FASB to GASB, as well as changes to the discount rate and change in asset returns.

Nonoperating Revenues, Net

Nonoperating revenues, net for fiscal year 2011 were approximately $4.0 million. Interest expense of approximately $3.3 million is included in nonoperating revenues, net, in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Investment income totaled approximately $2.2 million. Gain on disposal of capital assets totaled approximately $5.3 million. Fair value decreases for changes in derivatives and investments are approximately $0.2 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 and short-term investments decreased in fiscal year 2011 by approximately $4.4 million. Capital asset acquisition during the fiscal year 2011 totaled approximately $10.6 million. The Company received approximately $11.5 million from selling land. Payment of principal on long-term debt and capital lease obligations were approximately $8.4 million. The Company also funded the employee pension plan by approximately $12.8 million, approximately $9.4 million in excess of pension expense.

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.

Report of Independent Certified Public Accountants

To the Board of Directors of
Shands Jacksonville HealthCare, Inc. and Subsidiaries

In our opinion, the accompanying consolidated basic statement of net assets and the related consolidated basic statement of revenues, expenses, and changes in net assets and of cash flows present fairly, in all material respects, the financial position of Shands Jacksonville HealthCare, Inc. and Subsidiaries (the "Company") as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's 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 and the standards applicable to financial audits contained in *Government Auditing* Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance for the year ended June 30, 2011 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General,* and is not a required part of the consolidated basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the consolidated basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 30, 2011

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statement of Net Assets
June 30, 2011

(in thousands of dollars)

Assets		
Current assets		
Cash and cash equivalents	$	52,515
Short-term investments		74,917
Patient accounts receivable, net of allowance for uncollectibles of $148,277		65,911
Due from city and state agencies		7,358
Inventories		9,429
Prepaid expenses and other current assets		6,521
Assets whose use is restricted, current portion		3,460
Total current assets		220,111
Assets whose use is restricted, less current portion		19,500
Capital assets, net		161,359
Other assets		17,752
Total assets	$	418,722
Liabilities and Net Assets		
Current liabilities		
Long-term debt, current portion	$	8,578
Capital lease obligations, current portion		487
Accounts payable and accrued expenses		37,820
Accrued salaries and leave payable		22,538
Estimated third-party payor settlements		22,988
Total current liabilities		92,411
Long-term liabilities		
Long-term debt, noncurrent portion		124,687
Capital lease obligations, noncurrent portion		341
Other liabilities		7,894
Total long-term liabilities		132,922
Total liabilities		225,333
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt		69,388
Restricted		
Expendable		3,006
Unrestricted		120,995
Total net assets		193,389
Total liabilities and net assets	$	418,722

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

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

(in thousands of dollars)

Operating revenues	
Net patient service revenue, net of provision for bad debts of $88,874	$ 501,960
Other operating revenue	24,621
Total operating revenues	526,581
Operating expenses	
Salaries and benefits	247,838
Supplies and services	229,253
Depreciation and amortization	22,299
Total operating expenses	499,390
Operating income	27,191
Nonoperating revenues (expenses)	
Other nonoperating losses	(3,381)
Net investment gain, incuding change in fair value	2,047
Gain on disposal of capital assets, net	5,325
Total nonoperating revenues, net	3,991
Excess of revenues over expenses before transfers, capital contributions, and note payable to Shands	31,182
Transfers and expenditures in support of the University of Florida and its medical programs	(26,647)
Capital contributions, net	206
Note payable to Shands	(42,276)
Decrease in net assets	(37,535)
Net assets	
Beginning of year, as restated (Note 2)	230,924
End of year	$ 193,389

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statement of Cash Flows
Year Ended June 30, 2011

(in thousands of dollars)

Cash flows from operating activities		
Cash received from patients and third-party payors	$	500,069
Other receipts from operations		22,930
Salaries and benefits paid to employees		(259,428)
Payments to suppliers and vendors		(229,173)
Net cash provided by operating activities		34,398
Cash flows from noncapital financing activities		
Interest paid		(969)
Payments in support of the University of Florida and its medical programs		(26,647)
Payments of long-term debt		(640)
Net cash used in noncapital financing activities		(28,256)
Cash flows from capital and related financing activities		
Purchases of capital assets		(10,605)
Proceeds from sale of capital assets		11,520
Payments of long-term debt and capital lease obligations		(7,743)
Interest paid		(1,968)
Capital contributions		206
Net cash used in capital and related financing activities		(8,590)
Cash flows from investing activities		
Investment income received		2,239
Purchase of short-term investments and assets whose use is restricted		(5,869)
Net cash used in investing activities		(3,630)
Net decrease in cash and cash equivalents		(6,078)
Cash and cash equivalents		
Beginning of year		58,593
End of year	$	52,515
Disclosure of supplemental cash flow information		
Capital assets financed through capital lease obligations	$	73
Net decrease in fair value of investments		105
Net decrease in fair value of derivatives		50
Loss related to undepreciated costs on capital asset disposals		1,350
Note payable to Shands		42,276

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

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statement of Cash Flows
Year Ended June 30, 2011

(in thousands of dollars)

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 27,191
Adjustments to operating income to net cash provided by operating activities	
Depreciation and amortization	22,299
Provision for bad debts	88,874
Changes in:	
Patient accounts receivable	(95,029)
Prepaid expenses, inventories and other current assets	2,082
Other assets	(10,302)
Accounts payable and accrued expenses	(7,172)
Estimated third-party payor settlements	4,264
Other liabilities	2,191
Total adjustments	7,207
Net cash provided by operating activities	$ 34,398

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

1. Organization

Shands Jacksonville HealthCare, Inc. (the “Company”) formerly known as Jacksonville Health Group, Inc., is a not-for-profit corporation with direct control over Shands Jacksonville Medical Center, Inc. (“SJMC”) and direct or indirect control over numerous other facilities. SJMC, formerly known as University Medical Center, Inc. (“UMC”), is a not-for-profit corporation and the principal operating subsidiary of the Company. SJMC operates a teaching hospital located in Jacksonville, Florida, through a lease with the City of Jacksonville (the “City”) under the terms described in Note 10. The teaching hospital is licensed to operate 695 beds and provides clinical settings for medical education programs at the University of Florida.

The President of the University of Florida (“UF”), or his designee, is responsible for the oversight of the Company. The President of UF is appointed by a Board of Trustees that governs UF (the “UF Board”). The members of the UF Board are appointed by the Governor and Board of Governors of the state of Florida.

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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated basic financial statements have been prepared on the accrual basis of accounting and include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions 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, should apply generally accepted accounting principles applicable to governmental entities. As of July 1, 2010, the Company adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB No. 62”). GASB No. 62 incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989 that do not conflict with GASB pronouncements:

- FASB Statements and Interpretations;
- Accounting Principles Board Opinions; and
- Accounting Research Bulletins of the American Institute of Certified Public Accountants (“AICPA”) Committee on Accounting Procedure.

GASB No. 62 also supersedes GASB No. 20, thereby eliminating the election provided in GASB No. 20 for enterprise funds and governments engaged in business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict

GASB pronouncements. Adoption of GASB No. 62 had no impact on the consolidated basic financial statements. The Company uses the proprietary fund method of accounting, whereby revenues and expenses are recognized on the accrual basis.

Beginning net assets have been restated for adoption of GASB pronouncements. The primary consolidated basic financial statement items affected by the adoption were pension liabilities and other postemployment benefits. The adjustment to net assets at July 1, 2010 was as follows:

(in thousands of dollars)

Net assets at June 30, 2010 (unadjusted)	$ 187,364
Decrease in pension liability	41,473
Decrease in other postemployment liability	2,087
Change in net assets	43,560
Restated net assets at July 1, 2010	$ 230,924

Use of Estimates
The preparation of these consolidated basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated basic financial statements and accompanying notes. Actual results could differ from those estimates.

Tax Status
The Company and its subsidiaries are exempt from federal income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income taxes pursuant to Chapter 220 of the Florida Statutes.

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

Investments
Investments consist of money market funds and participation in the Florida State Treasury special investment program (“SPIA”). Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in nonoperating revenues when earned.

The estimated fair value of investments is based on quoted market prices. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated basic statement of revenues, expenses, and changes in net assets in the period such fluctuations occur.

Inventories
Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Contributions Receivable
Contributions receivable include unconditional promises to give and amounts collected on behalf of the Company held by Southeastern Healthcare Foundation or the University of Florida Foundation. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in the future are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as revenue until the conditions are substantially met. Contributions receivable are recorded in other assets in the accompanying consolidated basic statement of net assets.

Assets Whose Use is Restricted
Assets whose use is restricted consist primarily of cash and cash equivalents that have been internally designated for clinical support, education, research, and other health programs and amounts to be used to for mandatory redemption of bonds.

Capital Assets
Capital assets 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. Capital assets under capital leases are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statement of revenues, expenses, and changes in net assets. Gains and losses on dispositions are recorded in the year of disposal.

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 obligation is outstanding using the effective interest method. Amortization expense of approximately $78,000 was recorded for the year ended June 30, 2011 and unamortized bond costs at June 30, 2011 of approximately $486,000 were recorded in other assets in the accompanying consolidated basic statement of net assets.

Accrued Personal Leave
The Company provides accrued time off to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. The Company accrues the estimated expense related to personal leave based on pay rates currently in effect. Upon termination of employment, employees will have their eligible accrued personal leave paid in full.

Long-Term Debt
The fair value of long-term 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 carrying amount at June 30, 2011 is approximately $133,265,000. The estimated fair value at June 30, 2011 is approximately $133,577,000. This value represents a general approximation of possible value and may never actually be realized.

Net Assets
Net assets are categorized as "invested in capital assets, net of related debt," "restricted - expendable," and "unrestricted." Invested in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with non liquid capital assets, less outstanding balances due on borrowings used to finance the purchase or construction of those assets related to debt. Restricted – expendable net assets have restrictions placed on the use of these net assets through external constraints imposed by contributors. Unrestricted net assets are net assets that do not meet the definition of invested in capital assets, net of related debt and have no third-party restrictions on use.

Operating Revenues and Expenses
The Company's consolidated basic statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Company's principal activity. Net investment income, interest expense, and gain on disposal of assets are reported as nonoperating revenues. Donations received for the purpose of acquiring or constructing capital assets are recorded below nonoperating revenues as capital contributions. Operating expenses are all expenses incurred to provide health care services, excluding financing costs.

Net Patient Service Revenue and Patient Accounts Receivable
SJMC has agreements with third-party payors that provide for payments to SJMC 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 the estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the year ended June 30, 2011, net patient service revenue increased by approximately $6,991,000 due to such adjustments.

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

Medicare
The Company participates in the federal Medicare program ("Medicare"). Approximately 28% of the Company's net patient service revenue in fiscal year 2011 was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Company is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits by the Medicare fiscal intermediary. The Company's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2011, the Medicare cost reports were final settled by the Company's Medicare fiscal intermediary through June 30, 2006.

Medicaid

Approximately 26% of the Company's net patient service revenue for fiscal year 2011 was derived under the Medicaid program. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon a cost reimbursement methodology subject to certain ceilings. The Company is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicaid fiscal intermediary. The Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2006. In addition to the tentative payments received by the Company for the provision of health care services to Medicaid beneficiaries, the state of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in net patient service revenue in the accompanying consolidated basic statement of revenue, expenses, and changes in net assets.

The Company's Medicaid interim rates are based on the most recent “as filed” Medicare/Medicaid cost reports. The rates used in 2011 were based on the unaudited cost reports for 2009.

Other Third-Party Payors

The Company has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

It is management’s opinion that settlements of outstanding Medicare and Medicaid cost reports, when received, will not vary materially from the estimated amounts, which are recorded as current liabilities in the accompanying consolidated basic statement of net assets.

Provision for Bad Debts and Allowance for Uncollectible Accounts

The provision for bad debts is based on management’s assessment of historical and expected net collections, considering business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modification to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Patient accounts receivable are written off after collection efforts have been followed under the Company’s policies.

Derivative Financial Instruments

The Company uses interest rate swaps, which are not designated as hedge instruments, to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The Company accounts for its derivatives in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments (Note 7). Changes in fair value of interest rate swaps that do not qualify for hedge accounting are included within other nonoperating losses in the consolidated basic statement of revenues, expenses, and changes in net assets.

Future Accounting Pronouncements

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63"). GASB No. 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB No. 63 are effective for financial statements for periods beginning after December 15, 2011. The Company did not adopt GASB No. 63 for the year ended June 30, 2011. The Company does not expect the adoption of GASB No. 63 to have an impact on its consolidated basic financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* ("GASB No. 64"), an amendment of GASB No. 53. GASB No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. GASB No. 64 sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of GASB No. 64 are effective for financial statements for period beginning after June 15, 2011. The Company did not adopt GASB No. 64 for the year ended June 30, 2011. The Company does not expect the adoption of GASB No. 64 to have an impact on its consolidated basic financial statements.

3. 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. The Company 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").

The Company has policies providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and assets criteria. Because the Company does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. The Company maintains records to identify and monitor the level of financial assistance it provides. Charges forgone for services provided under the Company's financial assistance policy for the year ended June 30, 2011 were approximately $249,842,000.

In addition to direct financial assistance, the Company 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 the Company 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. Also included are scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.

- Donations include funds and in-kind services benefiting the community-at-large.

The Company’s valuation of unsponsored community benefits at cost for the year ended June 30, 2011 is as follows:

(in thousands of dollars)

Financial assistance provided	$ 63,259
Government support applied to charity care	(23,776)
Net unreimbursed financial assistance	39,483
Benefits for the broader community	
Community health services	2,024
Health professions education	20,753
Donations	68
Total quantifiable benefits for the broader community	22,845
Total community benefits	$ 62,328

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

The Company 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 and maintaining air ambulance services to help meet the emergency healthcare needs in Jacksonville.

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

4. Cash, Cash Equivalents, Investments and Assets Whose Use is Restricted

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

(in thousands of dollars)		Investment Maturities		
	Market Value	**Less Than 1 Year**	**1–3 Years**	**More Than 4 Years**
Florida Treasury Investment Pool (SPIA)	$ 74,917	$ -	$ 74,917	$ -
Money markets	35,316			
Bank deposits	40,159			
	$ 150,392			

Special Purpose Investment Account ("SPIA") funds are combined with State of Florida funds and invested in fixed income components. SPIA participants have the ability to invest and obtain funds same day with an 11:00 a.m. deadline.

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

(in thousands of dollars)

Internally designated by the Board of Directors for:	
Clinical support, education, research and other health programs	$ 19,500
Held by bank - under reimbursement agreement	3,460
	22,960
Less: Current portion	(3,460)
Long-term portion	$ 19,500

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

Credit Risk
This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Company invests either by participating in the Florida SPIA fund or through an investment agent. The agreement with the investment agent has specific objectives and guidelines, which includes issuer credit quality, a list of specific allowable investments and credit ratings.

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

(in thousands of dollars)	**Fair Value**	**Ratings AAA**	**Ratings Af**
Money markets	$ 35,316	$ 35,316	$ -
Florida Treasury Investment Pool (SPIA)	74,917	-	74,917
	$ 110,233	$ 35,316	$ 74,917

Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of the Company's investment portfolio are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2011, the Company did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk

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

Interest Rate Risk

The Company's investment agent guidelines limits maximum effective maturities to one year as a means of managing its exposure to fair value losses arising from increasing interest rates. While SPIA does hold some longer term maturities, participants have the ability to invest and obtain funds same day. Refer to the distribution of the Company's investment in fixed income securities by maturity as of June 30, 2011.

Deposit Risk

In addition to insurance provided by the Federal Depository Insurance Corporation, all demand deposits are held in banking institutions approved by the State of Florida state treasurer to hold public funds. Under the Florida Statutes Chapter 280, *Florida Security for Public Deposits Act* ("Chapter 280"), the state treasurer requires all qualified public depositories to deposit with the treasurer or another banking institution eligible collateral equal to amounts ranging from 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized.

Investment gain, net for fiscal year 2011 is as follows:

(in thousands of dollars)	
Dividends, interest and other income	$ 2,152
Net decrease in the fair value of investments	(105)
Investment gain, net	$ 2,047

5. Capital Assets

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

(in thousands of dollars)	Balance at June 30, 2010	Additions	Deletions	Transfers	Balance at June 30, 2011
Land	$ 27,646	$ 300	$ (5,126)	$ -	$ 22,820
Buildings and leasehold improvements	276,152	2,706	(1,669)	756	277,945
Equipment	237,992	1,923	(3,034)	3,706	240,587
Totals at historical cost	541,790	4,929	(9,829)	4,462	541,352
Less: Accumulated depreciation for					
Buildings and leasehold improvements	(166,507)	(10,233)	1,045	-	(175,695)
Equipment	(197,562)	(11,660)	2,308	-	(206,914)
	177,721	(16,964)	(6,476)	4,462	158,743
Construction-in-progress	1,013	6,259	(194)	(4,462)	2,616
Capital assets, net	$ 178,734	$ (10,705)	$ (6,670)	$ -	$ 161,359

Amortization expense on equipment held under capital lease which is included within depreciation and amortization in the consolidated basic statement of revenues, expenses, and changes in net assets was approximately $801,000 for the year ended June 30, 2011. Depreciation and amortization expense was approximately $22,299,000 for the year ended June 30, 2011. There was no interest capitalized during the year ended June 30, 2011.

6. Long-Term Debt

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

(in thousands of dollars)

SJMC Hospital Revenue Bonds	
Series 2004A, final maturity February 2014	$ 7,250
Series 2004B, final maturity February 2014	770
Series 2008, final maturity February 2019	59,405
2011 Shands Note Payable, final maturity October 2030	41,635
Hospital Revenue Refunding Bonds Series 2005	
(Methodist Hospital Projects), final maturity October 2015	24,445
	133,505
Less: Net unamortized bond discount	(240)
Total long-term debt	133,265
Less: Current portion	(8,578)
Long-term portion	$ 124,687

Changes in the Company's long-term debt, excluding any unamortized discounts or premiums were as follows:

(in thousands of dollars)	**Balance at June 30, 2010**	**Additions**	**Reductions**	**Balance at June 30, 2011**	**Amounts Due Within One Year**
SJMC Hospital Revenue Bonds					
Series 2004A, final maturity February 2014	$ 9,530	$ -	$ (2,280)	$ 7,250	$ 2,345
Series 2004B, final maturity February 2014	1,025	-	(255)	770	260
Series 2008, final maturity February 2019	59,405	-	-	59,405	-
2011 Shands Note Payable, final maturity October 2030	-	42,276	(641)	41,635	1,368
Hospital Revenue Refunding Bonds					
Series 2005, final maturity October 2015	28,915	-	(4,470)	24,445	4,605
Total long-term debt	$ 98,875	$ 42,276	$ (7,646)	$ 133,505	$ 8,578

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

(in thousands of dollars)

	Debt Service	
Year Ending June 30,	**Principal**	**Interest**
2012	$ 8,578	$ 3,606
2013	8,855	3,319
2014	9,111	3,018
2015	9,459	2,703
2016	9,826	2,446
2017-2021	26,623	9,653
2022-2026	33,394	6,120
2027-2031	27,659	1,795
	$ 133,505	$ 32,660

Series 2004A and 2004B Hospital Revenue Bonds
In 2004, the Jacksonville Economic Development Commission ("JEDC") issued the Series 2004A and 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 remaining Series 2004 Bonds are fixed rate, which are collateralized by the unconditional and irrevocable guarantee of the Ambac Financial Group, Inc. which has a termination date coterminous with the bonds. Interest on the fixed rate bonds ranges from 2.50% to 5.00% and is payable semiannually.

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 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 issued for approximately $29,000,000, which expires in October 2015. There were no amounts outstanding under this letter of credit at June 30, 2011. The Series 2005 Bonds are redeemable at the option of SJMC at par value plus accrued interest at any interest payment date.

Series 2008 Hospital Revenue Bonds
In 2008, the JEDC issued the Series 2008 Hospital Revenue 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. During 2010, the Series 2008 Bonds were converted from variable to index rate bonds, which are privately held by Wells Fargo Bank, during the five-year initial index rate period. The Series 2008 Bonds are redeemable at the option of SJMC at 100% of outstanding principal plus accrued interest at any interest payment date.

See Note 11 for further description of the 2011 Shands note payable.

SJMC is in compliance with all of its financial covenants related to the SJMC Hospital Revenue Bonds. These covenants require minimum tangible unrestricted net assets of $60,000,000, working capital of at least $10,000,000 and a maximum total debt capitalization ratio of no greater than 65%.

The Company was in compliance with the covenants at June 30, 2011.

Cash paid for interest was approximately $2,937,000 for the year ended June 30, 2011.

7. Interest Rate Swaps

On June 30, 2011, the Company had the following nonhedge treatment derivative instruments outstanding:

(in thousands of dollars)

Item	Type	Objective	The Company Notional Amount	Counterparty Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
2008	Fixed rate payer interest rate swap	Hedge changes in interest rate	$ 20,875	$ 20,875	1/30/2004	2/1/2021	Receive 67% of USD-LIBOR-BBA, Pay Fixed 3.337%	$ (2,099)
2004A	Fixed rate receiver interest rate	Hedge changes in interest rate	$ 2,345	$ 2,345	1/30/2004	2/1/2012	Receive fixed 3.161%, Pay variable SIFMA	40
2004A	Fixed rate receiver interest rate	Hedge changes in interest rate	$ 2,420	$ 2,420	1/30/2004	2/1/2013	Receive fixed 3.291%, Pay variable SIFMA	110
2004A	Fixed rate receiver interest rate	Hedge changes in interest rate	$ 2,485	$ 2,485	1/30/2004	2/1/2014	Receive fixed 3.401%, Pay variable SIFMA	170
2004B	Fixed rate receiver interest rate	Hedge changes in interest rate	$ 260	$ 260	1/30/2004	2/1/2012	Receive fixed 3.096%, Pay variable SIFMA	4
2004B	Fixed rate receiver interest rate	Hedge changes in interest rate	$ 265	$ 265	1/30/2004	2/1/2013	Receive fixed 3.226%, Pay variable SIFMA	12
2004B	Fixed rate receiver interest rate	Hedge changes in interest rate	$ 245	$ 245	1/30/2004	2/1/2014	Receive fixed 3.350%, Pay variable SIFMA	16

At June 30, 2011, approximately $1,747,000 related to the fair value of interest rate swaps is recorded in other liabilities in the accompanying consolidated basic statement of net assets.

The fair values of interest rate swaps are estimated using the present value of expected discounted future cash flows based on the maturity date.

Credit Risk

The Company has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2011, the credit ratings for the counterparty of all of the swap agreements was A/A2/A+.

Interest Rate Risk

The Company is not exposed to interest rate risk on its fixed rate payer interest rate swap which hedges the changes in interest rates on the Company's Series 2008 (variable rate bonds). The Series 2004A and 2004B fixed rate receiver interest rate swaps convert the Company's fixed rate Series 2004A and 2004B Bonds to a variable rate basis through maturity.

Basis Risk

The Company is exposed to basis risk on its fixed rate payer swap agreement because the variable rate payments received by the Company on the derivative instrument is based on a rate or index other than the interest rates the Company pays on its variable rate debt (Series 2008).

Termination Risk

The interest rate swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events provisions, such as failure to pay and bankruptcy.

Commitments
The Company's interest rate swap agreements require collateral to be posted if the fair value of the interest rate swap is negative and meets certain thresholds. The threshold amount depends on the Company's unenhanced credit rating as determined by Moody's Investor Services. No collateral was required to be posted on June 30, 2011.

Swap Termination
A portion of the 2004A and 2004B fixed receiver interest rate swaps terminated, as scheduled, on February 1, 2011.

8. Employee Benefit Plans

Defined Contribution Plan
SJMC has a defined contribution plan which allows participants to defer up to 6% of their salary, pursuant to Section 401(k) of the Internal Revenue Code and all limitations contained therein. During 2011, SJMC made contributions of 3% of the salary of all eligible employees and matched employee contributions up to a maximum of an additional 2.25% of the salary. Contributions to this plan by SJMC were approximately $5,979,000 for the year ended June 30, 2011.

Defined Benefit Pension Plan
The Company participates in the Shands HealthCare Pension Plan (the "Plan") which is a defined benefit pension plan that covers eligible company employees.

Contribution Requirements and Contributions Made
The annual required contribution ("ARC") for the current year was determined as part of the actuarial valuation using the projected unit credit actuarial cost method. The Plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. All contributions to the Plan are made by the employer and are intended to fund both the actuarially determined costs, as well as the Plan's operating costs. The Company's practice is to make sufficient annual contributions in accordance with the actuarial funding requirements. Annual required contributions to the Plan for fiscal year 2011 totaled approximately $3,254,000. The contributions represent approximately 250.37% of current covered payroll for fiscal year 2011. Total pension expense for the year ending June 30, 2011 totaled approximately $3,449,000. As of June 30, 2011, the Company has a pension asset of approximately $11,424,000. Pension expense is allocated to the Company based on valuation of payroll.

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

Covered payroll for the calculation of the 2011 actuarial information	$ 1,299,716
Participant data as of July 1, 2010 (date of most recent valuation)	
Active	25
Retired	247
Terminated vested	510
	782

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

Assumed rate of return on investments	7.5% per year (net of expenses)
Mortality basis	2011 PPA separate static annuitant and nonannuitant mortality tables
Amortization method	Level dollar closed
Remaining amortization period	8 years
Asset valuation method	Market value smoothed over 5 years
Termination	Graduated rates from 20 to 50 are as follows:

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

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

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

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

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

Funding Status and Progress
The Company's actuarial accrued liability ("AAL") as of April 1, 2011 was approximately $70,369,000. The actuarial value of the Plan assets available to pay these benefits at April 1, 2011 was approximately $62,203,000, leaving a deficit as compared to the AAL of approximately $8,166,000 at April 1, 2011. The AAL and the actuarial value of Plan net assets for the current year are based upon the April 1, 2011 actuarial valuation. The schedules of Plan funding progress, presented as required supplementary information ("RSI") following the notes to the consolidated basic financial statements, present multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AAL for benefits.

The funded status of the Plan as of April 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL (Projected Unit Credit) (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)(c)
April 1, 2011	$ 62,202,826	$ 70,369,005	$ 8,166,179	88.40%	$ 1,299,716	628.30%

The present value of accumulated plan benefits is computed to measure the funds required as of the valuation date to provide in full the benefits earned to date by all Plan participants. As of April 1, 2011, the present value of accumulated Plan benefits was approximately $70,318,000.

Trend Information

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

	April 1, 2011	July 1, 2010 (Unaudited)	July 1, 2009 (Unaudited)
Net assets available for benefits as a percentage of the AAL	88.40%	74.83%	78.96%
Unfunded actuarial accrued liability as a percentage of covered payroll	628.30%	963.32%	764.23%
Annual required contributions as a percentage of covered payroll	250.37%	81.21%	42.20%

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

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

	2011	2010 (Unaudited)	2009 (Unaudited)
Annual required contribution	$ 3,254,121	$ 1,469,618	$ 763,720
Interest on net pension obligation	(158,897)	(80,093)	(100,428)
Adjustment to annual required contribution	353,403	88,278	110,691
Annual pension cost	3,448,627	1,477,803	773,983
Contributions made with interest	(12,822,691)	(2,557,267)	(527,500)
(Increase) decrease in net pension asset	(9,374,064)	(1,079,464)	246,483
Net pension asset			
Beginning of year	(2,050,289)	(970,825)	(1,217,308)
End of year	$ (11,424,353)	$ (2,050,289)	$ (970,825)
Percentage of annual pension cost contributed	371.8%	173.0%	68.2%

The net pension asset of approximately $11,424,000 is included within other assets in the consolidated basic statement of net assets.

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

(in thousands of dollars)

Statement of Plan Net Assets

Cash and short-term investments	$	232
Investments at fair value		
Domestic equity funds and securities		19,087
International equity funds and securities		18,593
Fixed income funds		15,189
High yield fund		4,913
Private equity		2,671
Total investments		60,453
Net assets held in trust for pension benefits	$	60,685

(in thousands of dollars)

Statement of Changes in Plan Net Assets

Beginning investment value of account	$	42,414
Receipts		
Employer contributions		12,823
Realized and unrealized gains, net		9,617
Interest and dividends		1,323
Total receipts		23,763
Disbursements		
Benefit payments		5,101
Investment management and administrative fees		391
Total disbursements		5,492
Ending investment value of account	$	60,685

9. Other Postemployment Benefits

SJMC sponsors the Shands Jacksonville Health Plan (the "Health Plan"). In addition to providing pension benefits, the Company provides certain health care benefits for 53 retired employees.

The GASB requires state and local governmental employers to account for and report the annual cost of other postemployment benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The GASB's provisions may be applied prospectively and do not require governments to fund their OPEB plans. The actuarially determined cost for providing benefits to retirees and current employees during fiscal year 2011 was approximately $583,000. SJMC made approximately $889,000 of actual payments (contributions) during fiscal year 2011.

Funding Policy

The GASB does not require funding of the OPEB expense. The ARC is based on projected pay-as-you-go financing requirements, with an additional amount required to be recognized and accumulated as the net OPEB obligation. For fiscal year 2011, SJMC contributed approximately $889,000 to the plan, which is net of retiree contributions. Retiree contributions for fiscal year 2011 were approximately $101,000 according to the following table:

Average annual retiree contributions (pre and post Medicare)	Retiree	Spouse/Family
Preferred Plan	$ 1,297	$ 1,297
Post 65 BMM	230	230
Dental/Vision	253	253

Annual

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

Annual required contribution	$ 679,326
Interest on net OPEB obligation	48,705
Adjustment to annual required contribution	(144,993)
Annual OPEB cost	583,038
Contributions made	(888,862)
Decrease in net OPEB obligations	(305,824)
Net OPEB obligation	
Beginning of year, as restated (Note 2)	927,720
End of year	$ 621,896

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

(in thousands of dollars) Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 583,038	152.5%	$ 621,896
June 30, 2010 (unaudited)	374,675	77.8%	927,720
June 30, 2009 (unaudited)	388,397	113.5%	844,385

Funded Status and Funding Progress

As discussed above, the GASB does not require, and SJMC has not funded, the AAL. As of April 1, 2011, the unfunded actuarial accrued liability ("UAAL") for benefits was approximately $2,925,000.

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

Actuarial Methods and Assumptions

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

In the April 1, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.75% discount rate, representing an estimate of the discount rate for an unfunded plan. The UAAL is being amortized as a level dollar base for a closed 8 year period.

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

Discount rate	4.75% per year
Retiree contribution increases	Retiree contributions are assumed to increase at 5% each year until the point at which the employer cost cap is reached.
Health care cost trend rates	The trend rates of incurred claims represent the rate of increase in employer claims payments:

Medical Annual Rates of Increase	
Initial Trend Rate	7.70%
Ultimate Trend Rate	4.50%
Year that the rate reaches the ultimate trend rate	2028

10. Commitments and Contingencies

Leases

SJMC entered into an amended lease agreement with the City as of October 1, 1987, further amended as of October 1, 1999, with respect to the former UMC 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 at the termination of the lease. SJMC is responsible for the management, operation, maintenance, and repair of the facilities.

The following is a schedule, by year, of future minimum lease payments under noncancelable operating leases as of June 30, 2011:

(in thousands of dollars)

Years Ending		
2012	$	7,420
2013		5,230
2014		3,830
2015		2,708
2016		2,229
Thereafter		12,159
Total minimum lease payments	$	33,576

Rent expense related to operating leases for the year ended June 30, 2011 was approximately $9,434,000.

Total gross assets under capital leases included in capital assets were approximately $2,995,000 at June 30, 2011. Accumulated amortization on the capital lease at June 30, 2011 was approximately $2,243,000. Amortization expense is included in the accompanying consolidated basic statement of revenues, expenses, and changes in net assets for the year ended June 30, 2011.

Future lease payments are as follows:

(in thousands of dollars)

Years Ending		
2012	$	496
2013		246
2014		86
2015		13
Total minimum lease payments		841
Less: Amount representing interest		(13)
Present value of net minimum lease payments	$	828

Construction and Other Commitments
The Company has contracts for the construction and remodeling of facilities and for the purchase and maintenance of computer application software for its core operation systems. As of June 30, 2011, the remaining commitment relating to these contracts was approximately $4,278,000.

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

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

Effective July 1, 2011, the Company was granted sovereign immunity under the provision of Chapter 2011-114, Laws of Florida. As such, recovery in tort actions arising subsequent to June 30, 2011 will be limited to $100,000 for any one person for one incident and all recovery related to one incident is limited to a total of $200,000. Effective October 1, 2011, the limits increase to $200,000 for any one person for one incident and $300,000 in total for one incident.

Self-Insurance
The Company has a self-insurance plan for health and medical coverage for the employees of the Company. Amounts contributed by the Company and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expenses related to the self-insured health and medical plan for the year ended June 30, 2011 were approximately $25,685,000.

SJMC is self-insured for workers' compensation up to $500,000 per occurrence, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. Total expenses for the year ended June 30, 2011 were approximately $866,000.

Litigation
The Company 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 consolidated basic financial position or results of operations.

11. Transactions with Related Parties

As of June 30, 2011, SJMC and University of Florida Jacksonville Physicians, Inc. ("UFJP") were contingently liable as joint and several co-guarantors for the payment of 100% of both the principal and interest on $8,500,000 of Industrial Revenue Bonds related to the indebtedness of the Faculty Clinic, Inc. The guarantees were issued in connection with the Industrial Revenue Bonds, which were used to build the facility in which SJMC and UFJP are currently tenants. The bonds were issued on January 11, 1989, bearing variable interest rates and mature on July 1, 2019. At June 30, 2011, the outstanding amount of the Industrial Revenue Bonds is $5,000,000. The bonds are collateralized by an irrevocable letter of credit with a bank which expires in December 2011.

Shands, a related party controlled by the University of Florida, entered into a Support Services Agreement to support, as needed, the management team of SJMC in the administrative functions of the hospital through the provision of services and personnel. Expenses related to these services were approximately $5,214,000 for the year ended June 30, 2011.

SJMC receives contracted services at cost from 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. Expenses related to these services were approximately $26,647,000 for the year ended June 30, 2011. At June 30, 2011, payables related to this arrangement amounted to approximately $772,000 and are included in accounts payable and accrued expenses in the accompanying consolidated basic statement of net assets.

At June 30, 2011, the Company has a note payable of approximately $41,635,000 due to Shands. The original amount of the note was approximately $42,276,000 to be paid in quarterly installments of $804,620 including interest of 4.5% and matures on October 1, 2030. The current portion of the note payable of approximately $1,368,000 is included within long-term debt, current portion, and the long-term portion of the note payable of approximately $40,267,000 is included within long-term debt, noncurrent portion, in the accompanying consolidated basic statement of net assets.

12. Concentrations of Credit Risk

SJMC grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

Medicare	24%
Medicaid	35%
Other third-party payors	40%
Patients	1%
	100%

Certain financial instruments potentially subject the Company 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. The Company places its cash and cash equivalents and investments with what management believes to be high-quality financial institutions and thus limits its credit exposure. The Company has deposits in excess of the federal insured amount of $250,000. Management does not anticipate nonperformance risk by the financial institutions.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Plan Funding Progress (Unaudited)
July 1, 2006 Through June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (1) (b)	Unfunded AAL (UAAL) (b–a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b–a) / (c)
July 1, 2006	$ 55,883,332	$ 60,981,662	$ 5,098,330	91.6%	$ 2,817,438	181.0%
July 1, 2007	63,514,310	62,249,825	(1,264,485)	102.0%	2,292,460	-55.2%
July 1, 2008	58,021,779	63,353,295	5,331,516	91.6%	2,180,660	244.5%
July 1, 2009	51,905,053	65,734,526	13,829,473	79.0%	1,809,586	764.2%
July 1, 2010	51,816,038	69,248,158	17,432,120	74.8%	1,809,586	963.3%
April 1, 2011	62,202,826	70,369,005	8,166,179	88.4%	1,299,716	628.3%

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

	Employer Contributions	
(Fiscal) Plan Year	**Annual Required Contribution**	**Percentage Contributed**
July 1, 2005 to June 30, 2006	$ 700,765	149.4%
July 1, 2006 to June 30, 2007	787,480	154.0%
July 1, 2007 to June 30, 2008	178,045	355.5%
July 1, 2008 to June 30, 2009	763,720	69.1%
July 1, 2009 to June 30, 2010	1,469,518	174.0%
July 1, 2010 to June 30, 2011	3,254,141	394.0%

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

	Employer Contributions	
(Fiscal) Plan Year	**Annual Required Contribution**	**Percentage Contributed**
July 1, 2008 to June 30, 2009	$ 401,329	109.9%
July 1, 2009 to June 30, 2010	386,848	75.3%
July 1, 2010 to June 30, 2011	679,326	130.8%

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Assets
June 30, 2011

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group	Other	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	$ 41,811	$ 10,704	$ -	$ 52,515
Short-term investments	74,917	-	-	74,917
Patient accounts receivable, net	65,911	-	-	65,911
Due from city and state agencies	7,358	-	-	7,358
Inventories	9,429	-	-	9,429
Prepaid expenses and other current assets	4,861	3,346	(1,686)	6,521
Assets whose use is restricted, current portion	3,460	-	-	3,460
Total current assets	207,747	14,050	(1,686)	220,111
Assets whose use is restricted, less current portion	19,500	-	-	19,500
Capital assets, net	151,355	10,004	-	161,359
Other assets	16,876	876	-	17,752
Total assets	$ 395,478	$ 24,930	$ (1,686)	$ 418,722
Liabilities and Net Assets				
Current liabilities				
Long-term debt, current portion	$ 3,973	$ 4,605	$ -	$ 8,578
Capital lease obligations, current portion	487	-	-	487
Accounts payable and accrued expenses	39,491	15	(1,686)	37,820
Accrued salaries and leave payable	22,538	-	-	22,538
Estimated third-party payor settlements	22,988	-	-	22,988
Total current liabilities	89,477	4,620	(1,686)	92,411
Long-term liabilities				
Long-term debt, noncurrent portion	104,897	19,790	-	124,687
Capital lease obligations, noncurrent portion	341	-	-	341
Other liabilities	7,889	5	-	7,894
Total long-term liabilities	113,127	19,795	-	132,922
Total liabilities	202,604	24,415	(1,686)	225,333
Net assets				
Invested in capital assets, net of related debt	83,689	(14,301)	-	69,388
Restricted				
Expendable	2,806	200	-	3,006
Unrestricted	106,379	14,616	-	120,995
Total net assets	192,874	515	-	193,389
Total liabilities and net assets	$ 395,478	$ 24,930	$ (1,686)	$ 418,722

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2011

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group	Other	Eliminations	Consolidated Total
Operating revenues				
Net patient service revenue, net of provision for bad debts of $88,874	$ 501,960	$ -	$ -	$ 501,960
Other operating revenue	24,779	5,542	(5,700)	24,621
Total operating revenues	526,739	5,542	(5,700)	526,581
Operating expenses				
Salaries and benefits	247,852	(14)	-	247,838
Supplies and services	233,655	1,298	(5,700)	229,253
Depreciation and amortization	20,758	1,541	-	22,299
Total operating expenses	502,265	2,825	(5,700)	499,390
Operating income	24,474	2,717	-	27,191
Nonoperating revenues (expenses)				
Other nonoperating losses	(3,097)	(284)	-	(3,381)
Net investment gain, including change in fair value	2,036	11	-	2,047
Gain (loss) on disposal of capital assets, net	(1,776)	7,101	-	5,325
Total nonoperating revenues (expenses), net	(2,837)	6,828	-	3,991
Excess of revenues over expenses before transfers, capital contributions, and note payable to Shands	21,637	9,545	-	31,182
Transfers and expenditures in support of the University of Florida and its medical programs	(26,647)	-	-	(26,647)
Capital contributions, net	206	-	-	206
Note payable to Shands	(43,051)	775	-	(42,276)
(Decrease) increase in net assets	(47,855)	10,320	-	(37,535)
Net assets				
Beginning of year, as restated (Note 2)	240,729	(9,805)	-	230,924
End of year	$ 192,874	$ 515	$ -	$ 193,389

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA#	Contract Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Pass-Through the University of Florida:			
Poison Center Support and Enhancement Grant	93.253	UF10166	$ 422,398
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	UF Jax 10 S936	41,606
Pass-Through the City of Jacksonville, Community Services Department, Mental Health and Welfare Division:			
HIV Emergency Relief Project	93.914	6019-62	92,565
Total U.S. Department of Health and Human Services			556,569
U.S. Department of Homeland Security:			
Federal Emergency Management Agency			
Pass-Through the Florida Division of Emergency Management:			
Disaster Grants - Public Assistance	97.036	09-PA-B9-04-26-13-656	61,500
Total U.S. Department of Homeland Security			61,500
Total Expenditures of Federal Awards			$ 618,069

The accompanying note is an integral part of this Schedule of Expenditures of Federal Awards.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of State Financial Assistance
Year Ended June 30, 2011

Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Grantor's Number	State CFSA Number	State Expenditures
State of Florida, Department of Health:			
Trauma Center Financial Support	TRA-17	64.075	$ 392,922
Trauma One Flight Services	M9068	64.003	4,725
Pass-Through Northeast Florida Healthy Start Coalition, Inc.:			
Closing the Gap - Maternal and Infant Mortality	None	64.056	674,404
New Town Success Zone	None	93.778	19,229
Pass-Through the University of Florida:			
Poison Control Center	UF09043	64.014	302,333
Poison Data Center	UF09042	64.014	37,148
Subtotal 64.014			339,481
Total State of Florida, Department of Health			1,430,761
State of Florida, Agency for Healthcare Administration:			
Poison Information Network	None	64.014	1,201,102
Total State of Florida, Agency for Healthcare Administration			1,201,102
Total Expenditures of State Financial Assistance			$ 2,631,863

The accompanying note is an integral part of this Schedule of State Financial Assistance.

1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance (the “Schedules”) include the federal and state grant activity of Shands Jacksonville HealthCare, Inc. and Subsidiaries (the “Company”), and are presented on the accrual basis of accounting.

The information on these Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Because the Schedules present only a selected portion of the operations of the Company, they are not intended to and do not present the financial position, changes in net assets, or cash flows of the Company. The purpose of the Schedules is to present a summary of those activities of the Company for the year ended June 30, 2011 which have been financed by the federal and state of Florida governments. For purposes of the Schedules, federal awards and state financial assistance include any assistance provided by a federal or state agency directly or indirectly in the form of grants and contracts.

Direct and indirect costs are charged to awards in accordance with cost principles contained in the Department of Health and Human Services, Office of the Assistant Secretary Comptroller (“OASC”), OASC-3, *A Guide for Hospitals*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

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Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Shands Jacksonville HealthCare, Inc. and Subsidiaries

We have audited the consolidated basic financial statements of Shands Jacksonville HealthCare, Inc. and Subsidiaries (the "Company") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Company's management, the Board of Directors, the Audit Committee, others within the entity, the state of Florida, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 30, 2011

Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Financial Assistance Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General*

To the Board of Directors of
Shands Jacksonville HealthCare, Inc. and Subsidiaries

Compliance

We have audited the compliance of Shands Jacksonville HealthCare, Inc. and Subsidiaries (the "Company") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement*, and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2011. The Company's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Company's compliance with those requirements.

In our opinion, the Company complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2011.

PricewaterhouseCoopers LLP, 4221 West Boy Scout Boulevard, Suite 200, Tampa, FL 33607
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Internal Control Over Compliance
Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered the Company's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Company's management, the Board of Directors, the Audit Committee, others within the entity, the state of Florida, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 6, 2011

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weaknesses identified?	____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Noncompliance material to the financial statements noted?	____ Yes	__X__ No

Federal Awards and State Financial Assistance

Internal control over major programs and state assistance:		
Material weaknesses identified?	____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Type of auditor's report issued on compliance for major programs and state assistance:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 or Chapter 10.550, *Rules of the Auditor General*?	____ Yes	__X__ No

Identification of major programs and state assistance:

Federal Awards:

CFDA Number	Name of Federal Program or Cluster
93.253	Poison Center Support and Enhancement Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ Yes	_____ No

State Financial Assistance:

CSFA Number	Name of State Financial Assistance Project
64.075	Trauma Center Financial Support
64.014	Poison Information Network
	Poison Control Center
	Poison Data Center

Dollar threshold used to distinguish Type A and Type B programs:	$300,000	
Auditee qualified as low-risk pursuant to the Single Audit Act of the State of Florida?	__X__ Yes	_____ No

Section II: Financial Statement Findings

None noted.

Section III: Federal Awards Programs and State Financial Assistance Projects Findings and Questioned Costs

None noted.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

None noted.