



FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Financial Statements and
Supplementary Information and
Reports as Required by the Comptroller General of the United States

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

FLORIDA HEALTH SCIENCES CENTER, INC.

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Florida Health Sciences Center, Inc.:

We have audited the accompanying consolidated balance sheets of Florida Health Sciences Center, Inc. (the Center) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Florida Health Sciences Center, Inc. as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2011 on our consideration of the Center'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. 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is 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 10.650, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

January 24, 2011
Certified Public Accountants

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Balance Sheets

September 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 59,693,102	72,797,431
Short-term investments	33,102,637	32,846,997
Current portion of assets limited as to use	8,840,503	8,771,478
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$124,046,000 in 2010 and \$125,420,000 in 2009	109,180,812	117,924,586
Inventories	24,215,497	18,323,725
Prepaid expenses and other current assets	30,630,602	33,846,225
Total current assets	265,663,153	284,510,442
Assets limited as to use, less current portion	468,715,499	380,610,603
Long-term investments	—	315,441
Property and equipment, net	409,316,536	384,144,403
Goodwill, net	7,249,257	7,853,362
Other assets	4,575,794	4,836,684
	<u>\$ 1,155,520,239</u>	<u>1,062,270,935</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 77,464,934	68,855,087
Accrued expenses	83,658,818	88,436,888
Current installments of long-term debt	5,511,528	5,402,928
Current installments of obligations under capital leases	124,671	184,862
Estimated third-party payor settlements	44,362,034	43,253,911
Total current liabilities	211,121,985	206,133,676
Long-term debt, excluding current installments	374,029,531	375,351,145
Obligations under capital leases, excluding current installments	137,698	264,655
Other liabilities	174,847,305	149,643,131
Total liabilities	760,136,519	731,392,607
Net assets:		
Unrestricted	373,120,744	293,820,102
Temporarily restricted	21,450,592	36,260,814
Permanently restricted	812,384	797,412
Total net assets	395,383,720	330,878,328
	<u>\$ 1,155,520,239</u>	<u>1,062,270,935</u>

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted revenues, gains, and other support:		
Net patient services revenue	\$ 965,754,486	878,193,124
Disproportionate share distributions	33,501,737	30,688,388
Other revenue	<u>34,362,116</u>	<u>36,972,235</u>
Total revenues, gains, and other support	<u>1,033,618,339</u>	<u>945,853,747</u>
Expenses:		
Salaries and benefits	432,772,100	393,125,207
Medical supplies	208,610,488	208,706,097
Purchased services	71,441,344	65,880,759
Provision for bad debts	63,989,505	58,504,564
Utilities and leases	20,854,018	21,614,540
Insurance	26,136,333	33,088,629
Depreciation and amortization	35,992,447	34,527,807
Professional fees	34,415,309	28,599,925
Interest	18,965,544	19,438,494
Other	<u>75,827,278</u>	<u>63,672,254</u>
Total expenses	<u>989,004,366</u>	<u>927,158,276</u>
Operating income	44,613,973	18,695,471
Nonoperating gains (losses):		
Investment income	24,724,813	19,924,209
Contributions	<u>(2,800,000)</u>	<u>(300,000)</u>
Total nonoperating gains	<u>21,924,813</u>	<u>19,624,209</u>
Revenues, gains, and other support over expenses	66,538,786	38,319,680
Other changes in net assets:		
Net assets released from restrictions used for property and equipment	16,605,196	16,410,429
Pension-related changes other than net periodic pension cost	<u>(3,843,340)</u>	<u>(29,893,368)</u>
Increase in unrestricted net assets	<u>\$ 79,300,642</u>	<u>24,836,741</u>

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Revenue, gains, and other support over expenses	\$ 66,538,786	38,319,680
Net assets released from restrictions used for property equipment	16,605,196	16,410,429
Pension-related changes other than net periodic pension cost	<u>(3,843,340)</u>	<u>(29,893,368)</u>
Increase in unrestricted net assets	<u>79,300,642</u>	<u>24,836,741</u>
Temporarily restricted net assets:		
Net assets released from restrictions:		
Used for property and equipment	(16,605,196)	(16,410,429)
Used for operations	(1,171,231)	(555,884)
Contributions and other	16,214,082	5,441,729
Decrease in beneficial interest in net assets of Tampa General Hospital Foundation	<u>(13,247,877)</u>	<u>(2,885,369)</u>
Decrease in temporarily restricted net assets	<u>(14,810,222)</u>	<u>(14,409,953)</u>
Permanently restricted net assets:		
Increase in beneficial interest in net assets of Tampa General Hospital Foundation	<u>14,972</u>	<u>34,601</u>
Increase in permanently restricted net assets	<u>14,972</u>	<u>34,601</u>
Increase in net assets	64,505,392	10,461,389
Net assets, beginning of year	<u>330,878,328</u>	<u>320,416,939</u>
Net assets, end of year	<u>\$ 395,383,720</u>	<u>330,878,328</u>

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Cash Flows

Years ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 64,505,392	10,461,389
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	35,992,447	34,527,807
Amortization of debt issue costs	260,890	268,723
Restricted contributions	(13,963,469)	(3,979,268)
Unrealized gains, net	(12,655,061)	(22,032,426)
Realized (gains) losses	(4,536,379)	7,249,101
Provision for bad debts	63,989,505	58,504,564
Pension-related changes other than net periodic pension cost	3,843,340	29,893,368
Changes in operating assets and liabilities:		
Patient accounts receivable	(55,245,731)	(88,277,662)
Inventories	(5,891,772)	253,845
Prepaid expenses and other current assets	3,215,623	(12,776,614)
Accounts payable	832,846	(1,328,003)
Accrued expenses	(4,778,070)	15,171,448
Estimated third-party payor settlements	1,108,123	21,072,405
Other liabilities	21,360,834	10,186,003
Net cash provided by operating activities	98,038,518	59,194,680
Cash flows from investing activities:		
Purchases of property and equipment	(52,783,474)	(31,714,114)
Increase in assets limited as to use	(70,982,481)	(9,925,861)
Decrease (increase) in investments	59,801	(185,105)
Net cash used in investing activities	(123,706,154)	(41,825,080)
Cash flows from financing activities:		
Proceeds from restricted contributions	13,963,469	3,979,268
Proceeds from 606 Kennedy financing	4,275,000	—
Payments on long-term debt and capital leases	(5,675,162)	(7,471,873)
Net cash provided by (used in) financing activities	12,563,307	(3,492,605)
(Decrease) increase in cash and cash equivalents	(13,104,329)	13,876,995
Cash and cash equivalents at beginning of year	72,797,431	58,920,436
Cash and cash equivalents at end of year	\$ 59,693,102	72,797,431
Supplemental cash flow information:		
Cash paid for interest	\$ 19,050,019	19,546,044
Acquisition of property and equipment through capital leases	—	254,266
Accounts payable for property and equipment purchases	7,777,001	4,493,283

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) *Organization and Basis of Presentation*

Florida Health Sciences Center, Inc. (the Center), located in Tampa, Florida, is a not-for-profit entity incorporated during 1997 to meet the health care needs of the citizens of Hillsborough County and the state of Florida. The Center operates Tampa General Hospital (the Hospital), where it administers a teaching program for interns and residents. The Center incorporated Florida Health Sciences Center, Ltd. (the Company) on May 21, 2010 under the Companies Law of the Cayman Islands and obtained an Unrestricted Class "B" Insurers License under the provisions of the Cayman Islands Insurance Law. The Company, a wholly-owned subsidiary of the Center, provides professional and general liability coverage to the Center. Tampa General Hospital Foundation (the Foundation) is a related not-for-profit organization which supports the Center. The consolidated financial statements of the Center include the operations of the Hospital, the Company and the Center's beneficial interest in the net assets of the Foundation.

On October 1, 1997, control of the operations and all assets and liabilities of the Hospital were transferred from Hillsborough County Hospital Authority (the Authority), a governmental entity, to the Center. The change in control was accomplished through the execution of an agreement between the Authority and the Center, as well as changes granted by the Florida Legislature that provided for the privatization of the Hospital. For financial statement purposes, the change in control was accounted for as a purchase and, accordingly, assets acquired and liabilities assumed were recorded at fair value at the date of acquisition. The fair value of liabilities assumed exceeded the fair value of assets acquired on the Hospital financial statements by approximately \$15,102,000, which is recognized as goodwill in the balance sheets and is being amortized using the straight-line method over 25 years. Accumulated amortization approximates \$7,853,000 and \$7,248,000 as of September 30, 2010 and 2009, respectively.

In connection with the change in control, the Center entered into a 49-year lease agreement, which can be extended for an additional 49 years, with the Authority to lease the land and buildings on the Davis Islands Campus, together with all improvements located thereon, for a nominal annual rental amount of \$10. For financial reporting purposes, the fair value of the leased assets of approximately \$86,571,000 as of October 1, 1997 was reported as an increase in temporarily restricted net assets for the year ended September 30, 1998, as the leased assets can only be utilized in accordance with the specifications of the lease agreement. During 2010 and 2009, net assets of approximately \$2,642,000 and \$2,285,000, respectively, were released from restriction, relating to the annual depreciation expense associated with the leased assets.

(b) *Mission Statement*

The Hospital is committed to providing the residents of West Central Florida with excellent and compassionate health care ranging from the simplest to the most complex medical services. As a teaching facility, the Hospital partners with academic and community institutions to support both their teaching and research missions. As the region's leading safety net hospital, the Hospital reaffirms its commitment to providing high quality health services to all residents.

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Notes to Consolidated Financial Statements

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(c) Cash and Cash Equivalents

The Center considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Inventories

Inventories consist principally of medical and surgical supplies, drugs and medicines, and are valued at the lower of cost (first-in, first-out) or market.

(e) Assets Limited as to Use

Assets limited as to use primarily include assets held by independent bank trustees on behalf of the Center under terms of bond indentures and self-insurance trust agreements, and assets designated by the board of directors (the Board) for capital improvements and employee health benefits, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities have been reclassified to current assets in the consolidated balance sheets.

(f) Investments

Earnings on investments include realized and unrealized gains and losses on investments, interest income, and dividends and are included as revenues, gains, and other support over expenses in the consolidated statements of operations and changes in unrestricted net assets, unless the income or loss is restricted by donor or law. Investment income and net gains and losses restricted by donor stipulations are reported as an increase or decrease in temporarily restricted net assets. Investment income of \$7,778,000 and \$7,464,000 at September 30, 2010 and 2009, respectively, is included in unrestricted revenues and other revenue.

(g) Property and Equipment

Property and equipment, transferred from the Authority on October 1, 1997, was recorded at fair market value as determined by an independent appraisal. Other property and equipment acquisitions are recorded at historical cost at the date of acquisition or fair value at the date of donation. Maintenance and repairs are charged to expense as incurred, and betterments are capitalized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 40 years. Equipment under capital leases is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Interest cost on borrowed funds during the construction period is capitalized as a component of the cost of the assets.

Gifts of long-lived assets such as land, buildings, or equipment with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support and are recorded at fair value at the time the gift is made. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

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(h) Other Assets

Other assets include debt issuance costs of approximately \$3,819,000 and \$4,040,000 at September 30, 2010 and 2009, respectively. These amounts include costs capitalized in connection with issuance of the Series 2003 A and B and Series 2006 bonds (see note 7). Debt issuance costs incurred as part of the Series 2003 A and B bonds are amortized over the term of the related debt using the straight-line method, which approximates the effective interest method and are included as a component of interest expense. Debt issuance costs incurred as part of the issuance of the Series 2006 bonds are amortized using the effective interest method and are included as a component of interest expense. The debt issuance costs are net of accumulated amortization of approximately \$1,239,000 and \$1,018,000 at September 30, 2010 and 2009, respectively.

(i) Bond Discounts and Premiums

Bond discounts and premiums are being amortized using the effective interest method over the life of the related debt. Amortization of bond discounts and premiums is included in interest expense in the accompanying statements of operations. Series 2003 bond discount of approximately \$1,071,000 and \$1,116,000, and Series 2006 bond premium of \$4,379,000 and \$4,728,000 are included with the related debt in the balance sheets as of September 30, 2010 and 2009, respectively.

(j) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. If there is an indication that the carrying amount of an asset is not recoverable, the Center estimates the projected undiscounted cash flows, from the use and eventual disposition of the asset, excluding interest, to determine if impairment loss should be recognized. The amount of impairment loss, if any, is determined by comparing the historical carrying value of the asset to its estimated fair value. There were no such impairment losses recorded during the years ended September 30, 2010 and 2009.

In addition to consideration of impairment due to the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives.

(k) Estimated Professional Liability, Workers' Compensation, and Employee Benefits Cost

The Center is self-insured for professional liability, workers' compensation, and employee health benefits. The provision for professional liability, workers' compensation, and employee health benefit claims includes estimates of the ultimate discounted costs for both reported claims and claims incurred but not reported, based on evaluation of pending claims and past experience.

(l) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. The majority of temporarily restricted net assets are maintained pursuant to the lease agreement with the Authority, whereby the Center must continue to provide specific patient-care related services, continue to serve as a teaching hospital, and continue to provide certain levels of indigent care throughout the 49-year lease term. Permanently restricted net assets have been

FLORIDA HEALTH SCIENCES CENTER, INC.

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restricted by donors to be maintained by the Center in perpetuity, the income from which is expendable to support the Center's operations.

(m) *Beneficial Interest in Tampa General Hospital Foundation*

The Center recognizes its interest in the net assets of the Foundation. This interest is adjusted to reflect its share of change in the Foundation net assets.

(n) *Patient Accounts Receivable*

Receivables are reported net of an allowance for bad debt and contractual adjustment estimates. Although the aggregate amount of receivables may include balances due from patients and third-party payers (including final settlements and appeals), amounts due from third-party payers for retroactive adjustments of items, such as final settlements or appeals, are reported separately in the financial statements. The adequacy of the allowance for bad debts is evaluated regularly, with adjustments to increase or decrease the allowance by adjustments in the provision for bad debts. As expected payments are determined to be uncollectible, they are written off against the allowance for bad debts.

(o) *Net Patient Services Revenue*

Net patient services revenue is reported at the net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Pass-through amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates associated with these programs will change.

(p) *Nonoperating Gains and Losses and Revenue, Gains, and Other Support over Expenses*

Peripheral or incidental transactions are reported as non-operating gains and losses. Disproportionate share distributions, rental income from the Center's medical office building, sundry revenue related to the operation of the Center's facilities, and amounts earned from investment activities, all of which are used exclusively for the health-related services provided by the Center, are considered operating activities.

The consolidated statements of operations and changes in net assets include revenue, gains, and other support over expenses. Changes in unrestricted net assets that are excluded from revenue, gains, and other support over expenses are consistent with industry practice. Changes in unrestricted net assets consist primarily of pension liability adjustments and contributions of long-lived assets, if any.

(q) *Disproportionate Share Distributions*

The state of Florida Agency for Health Care Administration distributes low-income pool and disproportionate share payments to the Center based on its indigent care service level under the direction of the Low Income Pool Council. The Center's policy is to recognize these distributions as revenue when amounts are due and collection is reasonably assured. The receipt of any additional distributions is contingent upon the continued support by the Florida State Legislature.

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(r) Charity Care

The Center provides care to patients who meet certain criteria by reference to established charity care policies. Because the Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. Partial payments to which the Center is entitled from Medicaid, public assistance, and other programs on behalf of patients that meet the Center's charity care criteria are reported as net patient services revenue.

(s) Income Taxes

The Center has been recognized by the Internal Revenue Service as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, income earned in the furtherance of the Center's tax-exempt purpose is exempt from federal and state income taxes. Taxes are not levied in the Cayman Islands for income, profit, capital, or capital gains generated by Florida Health Sciences Center, Ltd.

The Center applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 for *Income Taxes* which clarifies the accounting for uncertainty in income tax position and provides guidance when tax positions are recognized in an entity's financial statement and how the value of these positions are determined.

(t) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

(u) Reclassifications

Certain reclassifications are reflected in the 2009 financial statements to conform to the 2010 presentation.

(2) Net Patient Services Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. The most significant third-party payors to the Center are the Medicare and Medicaid programs, which account for approximately 20% and 11%, respectively, of the Center's net patient services revenue for the years ended September 30, 2010 and 2009. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid on a prospectively determined rate per discharge based on the Medicare Severity Diagnosis-related Group (MSDRG) assigned to the patient. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology, subject to certain limits and fee schedules. The majority of outpatient services are paid on prospectively determined rates per occurrence based on the ambulatory payment classification assigned to the

FLORIDA HEALTH SCIENCES CENTER, INC.

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service provided. The Center also receives a disproportionate share payment from Medicare in addition to its diagnosis-related group payments, based on its level of Medicaid patient volume and low income Medicare beneficiaries.

The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicare fiscal intermediary. Final settlement has been determined for 2006 and prior. Differences between estimated provisions for cost report settlements and final amounts are reflected as net patient services revenue in the fiscal year the cost reports are considered finalized. Changes in such estimates related to prior cost reporting periods resulted in an increase in net patient services revenue of approximately \$8,600,000 and \$7,816,000 for the years ended September 30, 2010 and 2009.

(b) Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain limits. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits by the Medicaid fiscal intermediary.

The Center has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(3) Charity Care

The Center provides necessary medical care regardless of the patient's ability to pay for services under its Charity care policy. Qualification for charity care is based on the current Federal Poverty Income Guidelines (FPG). Underinsured and uninsured patients, who do not meet charity guidelines, may qualify for discounted care. Charity or discount consideration is available only after all third party reimbursement and government sources have been exhausted. Excessive assets or medical expenses may be factored as part of the charity or discount evaluation. The Center ensures that financial counseling communication is clear, concise, and considerate of the patient and family members. In addition, regulatory changes that may have the potential to alter charity classifications are monitored and incorporated into the policy, as necessary.

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The Center maintains records to identify and monitor the level of charity care. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following measures the level of charity care and other community benefits, as defined, at estimated costs for the years ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Traditional charity care	\$ 23,023,000	21,124,000
Unreimbursed Medicaid and Medicaid HMO	17,159,000	17,940,000
Unreimbursed Hillsborough County Health Plan	<u>19,462,000</u>	<u>17,448,000</u>
	<u>\$ 59,644,000</u>	<u>56,512,000</u>
As a percentage of operating expenses	6%	6%

(4) Concentration of Credit Risk of Net Accounts Receivable on the Balance Sheets

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30 is as follows:

	<u>2010</u>	<u>2009</u>
Managed care	53%	48%
Medicare	18	19
Medicaid	6	10
Other	<u>23</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>

The credit risk in other payors is limited due to the large number of insurance companies that provide payments for services.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(5) Assets Limited as to Use and Investments

Assets limited as to use at September 30, 2010 and 2009, at fair value, are as follows:

	<u>2010</u>	<u>2009</u>
Internally designated for capital improvements and employee health benefits:		
Cash and cash equivalents	\$ 32,762,328	18,068,123
U.S. Government obligations	23,727,294	36,233,171
Corporate bonds	174,948,242	113,949,453
Common stock	106,783,762	77,462,256
Beneficial interest in Tampa General Hospital Foundation	3,960,976	17,193,881
Total internally designated for capital improvements and employee health benefits	<u>342,182,602</u>	<u>262,906,884</u>
Held by trustee under malpractice self-insurance arrangement:		
Cash and cash equivalents	6,633,443	6,877,554
U.S. Government obligations	93,289,436	85,020,619
Total held by trustee under malpractice self-insurance arrangement	<u>99,922,879</u>	<u>91,898,173</u>
Held by trustee under bond indentures:		
Cash and cash equivalents	35,450,521	20,806,974
Guaranteed insurance contract	—	13,770,050
Total held by trustee under bond indentures	<u>35,450,521</u>	<u>34,577,024</u>
Assets limited to use	477,556,002	389,382,081
Less amount required to meet current obligations	<u>(8,840,503)</u>	<u>(8,771,478)</u>
Assets limited to use, less current portion	\$ <u>468,715,499</u>	\$ <u>380,610,603</u>

Investments, stated at fair value, consist of the following at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 22,984,463	32,526,562
Government bonds	10,118,174	635,876
	33,102,637	33,162,438
Less amounts classified as short-term investments	<u>(33,102,637)</u>	<u>(32,846,997)</u>
Long-term investments	\$ <u>—</u>	\$ <u>315,441</u>

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Investment income and gains and losses on assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended September 30, 2010 and 2009:

	2010	2009
Other revenue:		
Interest income	\$ 6,130,938	4,641,165
Unrealized gains on trading investments, net	1,646,968	2,822,574
Total	7,777,906	7,463,739
Nonoperating gains (losses):		
Interest income and dividends	9,180,341	7,963,458
Net realized gains (losses) on sale of investments	4,536,379	(7,249,101)
Unrealized gains on trading investments, net	11,008,093	19,209,852
Total	24,724,813	19,924,209
Total investment return	\$ 32,502,719	27,387,948

(6) Fair Value Measurements

Financial Accounting Standards Board ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Topic 820 requires investments to be grouped into three categories based on certain criteria as noted below:

- **Level 1:** Fair value is determined by using quoted prices for identical assets or liabilities in active markets.
- **Level 2:** Fair value is determined by using other than quoted prices that are observable or corroborated for the asset by other independently verifiable market data (e.g., quoted prices for identical assets in inactive markets, quoted prices for similar assets in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).
- **Level 3:** Fair value is determined by using inputs based on management assumptions that are not directly observable.

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The following table summarizes the fair values of the Center's significant financial assets and liabilities as of September 30, 2010:

	September 30, 2010	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 157,523,857	157,523,857	—	—
Equity securities:				
Domestic stocks	86,429,026	86,429,026	—	—
Global stocks	19,080,878	19,080,878	—	—
Fixed income securities:				
Government agencies	78,837,401	78,837,401	—	—
Municipal bonds	46,927,652	46,927,652	—	—
Corporate bonds	177,591,951	177,591,951	—	—
Other types of investments:				
Beneficial interest in TGH Foundation	3,960,976	3,960,976	—	—
Total	\$ 570,351,741	570,351,741	—	—

	September 30, 2009	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 151,076,646	151,076,646	—	—
Equity securities:				
Domestic stocks	63,587,829	63,587,829	—	—
Global stocks	13,874,420	13,874,420	—	—
Fixed income securities:				
Treasury obligations	9,631,490	9,631,490	—	—
Government agencies	69,414,821	69,414,821	—	—
Municipal bonds	4,558,809	4,558,809	—	—
Corporate bonds	152,234,004	152,234,004	—	—
Other types of investments:				
Beneficial interest in TGH Foundation	17,193,881	17,193,881	—	—
Guaranteed investment contracts	13,770,050	—	13,770,050	—
Total	\$ 495,341,950	481,571,900	13,770,050	—

Following is a description of the valuation methodologies used for significant assets measured at fair value at September 30, 2010:

Cash and cash equivalents: The carrying amounts reported in the balance sheets approximate the fair value because of the short maturities of these instruments.

Investments: Valued at the closing price reported on the active market on which the individual securities are traded, or valued based on quoted prices for similar assets.

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Estimates of fair values are subjective in nature and involve uncertainties and matter of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

(7) Long-Term Debt

Long-term debt consists of the following:

	<u>2010</u>	<u>2009</u>
Series 2003A and B Bonds, net of unamortized discount of \$1,070,910 at September 30, 2010, maturing in various amounts through October 1, 2034, with stated rates of 2.5% to 5.25%	\$ 188,449,090	192,174,469
Series 2006 Bonds, net of unamortized premium of \$4,378,785 at September 30, 2010, maturing in various amounts through October 1, 2041, with stated rates of 4% to 5.25%.	186,783,785	188,058,302
Note payable, due in monthly installments through 2015 at a stated rate of interest of 6.5%, collateralized by land, with a balloon payment due on November 14, 2015	4,130,681	—
Note payable, due in monthly installments through 2010 at an effective rate of interest of 0%, collateralized by equipment	—	1,500
Note payable, due in annual installments through 2011 at an effective rate of interest of 4.89%, collateralized by equipment	<u>177,503</u>	<u>519,802</u>
Total long-term debt	379,541,059	380,754,073
Less current installments	<u>(5,511,528)</u>	<u>(5,402,928)</u>
Long-term debt, excluding current installments	\$ <u>374,029,531</u>	<u>375,351,145</u>

Effective May 1, 2003, the Hillsborough County Industrial Authority (Florida) issued \$210,000,000 aggregate principal amounts of tax-exempt Hospital Revenue Refunding Bonds (2003 Bonds), comprised of Series A principal \$91,885,000 and Series B principal \$118,115,000. A portion of the proceeds of the 2003 Bonds was used to purchase and redeem the Hospital's outstanding Series 1992 Bonds, and the remaining proceeds of the 2003 Bonds were utilized for the expansion, improvement, and further equipping of the health care facilities. The 2003 Bonds contain various covenants, including but not limited to the maintenance of a minimum debt service coverage ratio and provides that certain funds be established with a trustee bank (note 5). Management believes the Center is in compliance with such covenants at September 30, 2010.

On September 28, 2006, the Hillsborough County Industrial Authority (Florida) issued \$185,000,000 aggregate principal amounts of tax-exempt Hospital Revenue Refunding Bonds (2006 Bonds). Proceeds of the 2006 Bonds were utilized for the expansion, improvement, and further equipping of the Hospital's health care facilities. The 2006 Bonds contain various covenants, including but not limited to the

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maintenance of a minimum debt service coverage ratio and provides that certain funds be established with a trustee bank (note 5). Management believes the Center is in compliance with such covenants at September 30, 2010.

The 2006 and 2003 Bonds are secured solely by a pledge of and a security interest in the revenue of the Center. Such pledge and security interest have been assigned to a bank trustee. Stated interest rates on the 2003 Bonds range from 2.5% to 5.25%, with an effective interest rate of 5.25% at September 30, 2010, and maturities through October 1, 2034. Except for \$34,825,000 of serial bonds maturing prior to October 1, 2016, the 2003 Bonds are subject to mandatory redemption by the Center beginning October 1, 2016 at par plus accrued interest. Stated interest rates on the 2006 Bonds range from 4% to 5.25%, with an effective rate of 5% at September 30, 2010, and maturities through October 1, 2041, except for \$10,215,000 of serial bonds maturing prior to October 1, 2017, the 2006 Bonds are subject to mandatory redemption by the Center beginning October 1, 2017 at par plus accrued interest.

The Center, on September 3, 2009, entered into a purchase agreement for land totaling 2.52 acres with buildings and improvements located at 606 West Kennedy Boulevard in the city of Tampa. The purchase price was \$5,700,000 and closed in November 2009. At closing, the seller received a promissory note in the amount of \$4,275,000. The terms of seller financing are 6.5% interest rate per annum, amortized over 15 years, with a maturity/balloon payment due in five years after closing.

Scheduled maturities of long-term debt as of September 30, 2010 are as follows:

Year ending September 30:	
2011	\$ 5,511,528
2012	5,291,104
2013	5,544,238
2014	5,813,251
2015	9,168,293
Thereafter	<u>344,904,770</u>
Long-term debt, excluding unamortized premiums (discounts)	376,233,184
Unamortized premium	4,378,785
Unamortized discount	<u>(1,070,910)</u>
Long-term debt, including unamortized premiums (discounts)	<u>\$ 379,541,059</u>

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(8) Property and Equipment

Property and equipment consists of the following as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land	\$ 31,173,230	23,630,091
Land improvements, buildings, and fixed equipment	357,865,287	340,395,033
Major moveable equipment	197,279,665	185,993,262
Other equipment	2,078,673	2,030,279
Items under capital lease obligations:		
Equipment	<u>5,569,247</u>	<u>5,569,247</u>
Total property and equipment	593,966,102	557,617,912
Less accumulated depreciation and amortization	<u>(225,829,702)</u>	<u>(190,471,599)</u>
Total property and equipment less depreciation and amortization	368,136,400	367,146,313
Construction in progress	<u>41,180,136</u>	<u>16,998,090</u>
Property and equipment, net	\$ <u><u>409,316,536</u></u>	\$ <u><u>384,144,403</u></u>

At September 30, 2010 and 2009, the estimated cost to complete construction in progress is approximately \$105,879,215 and \$56,775,908, respectively.

Interest expense net of interest income of approximately \$666,000 and \$335,000 was capitalized during the years ended September 30, 2010 and 2009, respectively.

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(9) Lease Obligations

The Center leases certain medical and other support equipment under noncancelable capital and operating leases. Rent expense under noncancelable operating leases was approximately \$6,469,005 and \$6,993,815 for the years ended September 30, 2010 and 2009, respectively. Future minimum lease payments at September 30, 2010 are as follows:

	Capital leases	Operating leases
Year ending September 30:		
2011	\$ 132,959	6,702,355
2012	56,192	2,958,034
2013	56,192	599,904
2014	32,779	43,843
2015	—	7,396
Total leases	278,122	\$ 10,311,532
Less amounts representing interest	(15,754)	
Present value of minimum capital lease payments	262,368	
Current installments of obligations under capital leases	124,671	
Obligations under capital leases, excluding current installments	\$ 137,697	

(10) Pension and Other Postretirement Benefits

(a) Retirement Plan

The Center established the Florida Health Sciences Center, Inc. Retirement Plan (the Plan), which became effective January 1, 1998. The Plan is a noncontributory, single employer, cash balance defined benefit pension plan. The Tampa General Staffing, Inc. Retirement Plan was merged into the Plan effective January 1, 1998.

All employees are eligible to participate in the Plan as of the beginning of the month following the later of the employee's attainment of age 21 and the completion of one year of service (i.e., generally a plan year during which the employee completes 1,000 hours of service).

The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Furthermore, the Plan provides a health insurance subsidy to participants who had 20 years of service with the Florida Retirement System as of December 31, 1996. This subsidy is a monthly supplemental payment that a participant may be eligible to receive if they elect health insurance coverage. The amounts payable by the Plan are reduced by the amount payable by the Florida Retirement System for the subsidy. The minimum subsidy is \$30 per month and the maximum is \$90 per month.

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The actuarially computed net periodic pension cost for the Center's Plan for the years ended September 30, 2010 and 2009 included the following components:

	<u>2010</u>	<u>2009</u>
Service cost – benefits earned during the period	\$ 17,440,711	13,026,053
Interest cost on projected benefit obligation	9,088,592	9,974,768
Actual return on plan assets	(10,630,097)	(9,313,216)
Net amortization and deferral of unrecognized losses	<u>5,960,464</u>	<u>3,300,438</u>
Net periodic pension cost	\$ <u>21,859,670</u>	<u>16,988,043</u>

The following table sets forth the Plan's funded status and amount recognized in other liabilities in the Center's balance sheets as of September 30, 2010 and 2009 (using a measurement date of September 30th):

	<u>2010</u>	<u>2009</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 181,850,240	139,984,146
Service cost	17,440,711	13,026,053
Interest cost	9,088,592	9,974,768
Amendments	—	—
Actuarial loss	14,327,293	24,282,506
Benefits paid	<u>(8,248,373)</u>	<u>(5,417,233)</u>
Benefit obligation at end of year	<u>214,458,463</u>	<u>181,850,240</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	123,778,485	112,284,560
Actual return on plan assets	19,113,157	3,414,418
Employer contributions	14,338,861	13,496,740
Benefits paid	<u>(8,248,373)</u>	<u>(5,417,233)</u>
Fair value of plan assets	<u>148,982,130</u>	<u>123,778,485</u>
Funded status and accrued benefit costs	\$ <u>(65,476,333)</u>	<u>(58,071,755)</u>

The accumulated benefit obligation for the Plan was approximately \$193,298,000 and \$166,335,000 at September 30, 2010 and 2009, respectively.

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Weighted average assumptions used to determine projected benefit obligations at September 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	4.76%	5.22%
Rate of compensation increase	3.00%-8.00%	5.00

The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	5.22%	7.69%
Rate of increase in compensation levels	5.00	5.00
Expected long-term rate of return on plan assets	8.50	8.50

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual assets categories.

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of September 30, 2010. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

	<u>Net prior service cost</u>	<u>Net actuarial loss</u>	<u>Total</u>
Amounts recognized in unrestricted net assets at September 30, 2010	\$ 1,566,110	67,505,781	69,071,891
Amounts in net assets to be recognized during the next fiscal year	239,869	4,345,277	4,585,146

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Plan Assets

The weighted average asset allocation of the Center's pension benefits at September 30, 2010 and 2009 were as follows:

Asset category	Pension benefits plan assets at September 30	
	2010	2009
Cash and cash equivalents	7%	9%
Equity securities:		
Domestic stocks	50	47
Global stocks	23	24
Fixed income securities:		
US treasury obligations	1	1
Government agencies	1	3
Corporate bonds	18	16
Total	100%	100%

	September 30, 2010	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 9,720,259	9,720,259	—	—
Equity securities:				
Domestic stocks	73,780,294	73,780,294	—	—
Global stocks	33,532,598	33,532,598	—	—
Fixed income securities:				
Government agencies	1,924,884	1,924,884	—	—
Municipal bonds	1,123,881	1,123,881	—	—
Corporate bonds	28,900,214	28,900,214	—	—
Total	\$ 148,982,130	148,982,130	—	—

	September 30, 2009	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 10,634,618	10,634,618	—	—
Equity securities:				
Domestic stocks	58,637,186	58,637,186	—	—
Global stocks	29,144,883	29,144,883	—	—
Fixed income securities:				
Government agencies	1,055,512	1,055,512	—	—
Municipal bonds	3,508,909	3,508,909	—	—
Corporate bonds	20,797,377	20,797,377	—	—
Total	\$ 123,778,485	123,778,485	—	—

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The investment objective of the defined benefit plan is to use prudent and reasonable levels of liquidity and investment risk to produce an investment return that provides for payments of benefits to participants and their beneficiaries. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation, and the rate of salary increases. The defined benefit plan's investment committee has selected market-based benchmarks to monitor the performance of the investment strategy and performs periodic reviews of investment performance.

The investment strategy has a current target allocation policy as follows: 75% equities and 25% fixed income and other securities. The expected long-term rate of return on plan assets is determined based primarily on expectations of future returns for the defined benefit plan's investments based on the target asset allocation. Additionally, the historical returns on comparable equity and fixed income investments are considered in the estimate of the expected long-term rate of return on plan assets.

Cash Flows

The Center expects to contribute approximately \$21,353,000 to the Plan in 2011.

The benefits expected to be paid in each year from 2012 through 2016 are approximately \$11,916,000, \$13,478,000, \$15,241,000, \$17,084,000, and \$18,866,000, respectively. The aggregate benefits expected to be paid in the five years from 2017 through 2021 are approximately \$124,928,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations at September 30 and include estimated future employee service.

(b) Supplemental Retirement Plan

Effective January 1, 2002, the Center established the Florida Health Sciences Center, Inc. Supplemental Executive Retirement Plan (SERP). The SERP is a nonqualified defined benefit plan limited to certain management or highly compensated employees as determined by the Center. Upon vesting, the SERP provides participants with deferred compensation annually, based on 60% of the participants' compensation during the highest five complete calendar years out of the last ten complete calendar years. Certain adjustments are made to the annual benefit based on current and projected years of service and expected benefits payable under the Florida Retirement System, if any, Social Security, and the Florida Health Sciences Center, Inc. Retirement Plan. Only calendar years beginning on or after January 1, 2002 are considered. Vesting is generally effective after a participant completes five years of service with the Center. The SERP also provides for certain death or disability benefits.

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The actuarially computed net periodic pension cost for the Center's SERP for the years ended September 30, 2010 and 2009 included the following components (using a measurement date of September 30th):

	<u>2010</u>	<u>2009</u>
Service cost – benefits earned during the period	\$ 1,346,600	943,274
Interest cost on projected benefit obligation	624,049	643,248
Net amortization and deferral of unrecognized losses	<u>262,473</u>	<u>91,137</u>
Net periodic pension cost	\$ <u><u>2,233,122</u></u>	<u><u>1,677,659</u></u>

The following table sets forth the SERP's funded status and amount recognized in other liabilities in the Center's balance sheets as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 10,879,098	7,821,708
Service cost	1,346,600	943,274
Interest cost	624,049	643,248
Assumptions	(589,374)	—
Actuarial gain	3,101,729	1,950,571
Benefits paid	<u>(627,777)</u>	<u>(479,703)</u>
Benefit obligation at end of year	14,734,325	10,879,098
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status and accrued benefit costs	\$ <u><u>(14,734,325)</u></u>	<u><u>(10,879,098)</u></u>

The accumulated benefit obligation for the SERP was \$11,223,000 and \$7,258,000 at September 30, 2010 and 2009, respectively.

Weighted average assumptions used to determine projected benefit obligations at September 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	3.83%	4.71%
Rate of compensation increase	3.00%-8.00%	5.00

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The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2010 and 2009 are as follows:

	2010	2009
Discount rate	4.71%	7.57%
Rate of increase in compensation levels	5.00	5.00

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of September 30, 2009. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

	Net prior service cost	Net actuarial loss	Total
Amounts recognized in unrestricted net assets at September 30, 2010	\$ (145,765)	4,848,391	4,702,626
Amounts in net assets to be recognized during the next fiscal year	(53,987)	316,460	262,473

Cash Flows

The Center does not expect to make any contributions to the SERP in fiscal 2011.

The benefits expected to be paid in each year from 2011 through 2015 are approximately \$6,788,000, \$2,637,000, \$959,000, \$635,000, and \$883,000, respectively. The aggregate benefits expected to be paid in the five years from 2016 through 2020 are approximately \$4,804,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations at September 30, 2010 and include estimated future employee service.

(c) Other Postretirement Benefits

The Center sponsors a defined benefit postretirement plan which is intended to provide medical benefits to retirees who were hired prior to January 1, 2001 and had completed 30 or more years of service or who attained age 62 and completed five years of service. In addition, the plan provides benefits to retirees who had completed 20 or more years of service prior to January 1, 1997. The postretirement plan is contributory, with retiree contributions adjusted annually based on the projected average plan cost of the Center's self-insured health benefit program for the year. The Center accrues the cost of providing postretirement benefits during the active service period of the employee.

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The components of net periodic postretirement benefit cost for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Service cost—benefits attributed to service during the year	\$ 231,756	201,796
Interest cost on accumulated postretirement benefit obligation	284,709	319,386
Amortization of net gain	—	(79,091)
Net periodic postretirement benefit cost	<u>\$ 516,465</u>	<u>442,091</u>

The following table sets forth the postretirement plan's funded status and amounts recognized in other liabilities in the Center's balance sheets as of September 30, 2010 and 2009 (measurement date as of September 30):

	<u>2010</u>	<u>2009</u>
Change in accumulated benefit obligation:		
Accumulated benefit obligation at beginning of year	\$ 4,976,100	3,581,011
Service cost	231,756	201,796
Interest cost	284,709	319,386
Retiree contributions	317,842	432,677
Actuarial loss (gain)	2,179,022	913,479
Benefits paid	(602,216)	(472,249)
Accumulated benefit obligation at end of year	<u>7,387,213</u>	<u>4,976,100</u>
Change in plan assets:		
Employer contribution	284,374	39,572
Employee contribution	317,842	432,677
Benefits paid	(602,216)	(472,249)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status and accrued benefit costs	<u>\$ (7,387,213)</u>	<u>(4,976,100)</u>

For measurement purposes, a 9.5% and 10.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010 and 2009, respectively, and the rate was assumed to decrease gradually to 5.5% over the subsequent three years and remain at that level thereafter.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.0% and 5.4% at September 30, 2010 and 2009, respectively. The weighted average discount rate used in determining the net benefit cost was 5.4% and 6.9% at September 30, 2010 and 2009, respectively.

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The impact of one-percentage-point change in assumed health care cost trend rates as of September 30, 2010 is as follows:

	<u>1% point increase</u>	<u>1% point decrease</u>
Effect on total of service and interest cost components	\$ 93,522	(75,604)
Effect on postretirement benefit obligation	1,412,795	(1,104,001)

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of September 30, 2010. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

Net actuarial gain recognized in unrestricted net assets at September 30, 2010	\$ —
Net actuarial gain to be recognized during the next fiscal year	84,698

Cash Flows

The Center expects to contribute approximately \$250,000 to its postretirement benefit plan in 2011.

The benefits expected to be paid in each year from 2012 through 2015 are approximately \$281,000, \$284,000, \$315,000, and \$364,000, respectively. The aggregate benefits expected to be paid in the five years from 2016 through 2020 are \$2,490,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations at September 30 and include estimated future employee service.

(11) Commitments and Contingencies

(a) Litigation

During the normal course of business, the Center is involved in litigation with respect to professional liability claims and other matters. In addition, the Center is subject to periodic regulatory investigations. The Center has purchased insurance coverage to minimize its exposure to such risk. This coverage includes property, directors and officers, vehicles, medical malpractice, and general liability. Each policy has its own deductible and/or self-insurance retention.

The Center insures its professional and general liability on a claims-made basis through a commercial insurance carrier. The Center has secured claims-made coverage continuously from October 1, 1997 through September 30, 2010. The Center has renewed its claims-made policy.

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September 30, 2010 and 2009

For claims prior to October 1, 1997, the Authority, as an agency or subdivision of the state of Florida, had sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28, the Center's legal liability was limited by statute to \$100,000 per claimant and \$200,000 for all claimants per occurrence. Self-insurance retention limits from October 1, 1997 to September 30, 2010 range from \$1 million to \$5 million. The Captive also provides excess professional liability and general liability coverage to the Center on a claims made basis. The Company's liability under this policy is limited to \$50,000,000 per claim and in the aggregate in excess of \$5,000,000 per claim.

The Center has employed independent actuaries to assist management in estimating the ultimate costs, if any, of the settlement of known claims and incidents, as well as unreported incidents that may be asserted, arising from services rendered to patients. Reported amounts for professional liability were approximately \$93,587,000 and \$84,518,000 as of September 30, 2010 and 2009, respectively, and are included in accrued expenses and other liabilities.

(b) *Third-Party Reimbursement*

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Center is aware of these laws and regulations and, to the best of its knowledge and belief, is in compliance. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

(12) Other Funding Sources

The Hospital receives funding from various components of the state of Florida's (the State) Medicaid program, including the Low Income Pool program (LIP) and Medicaid per diem rates. The State's LIP program distributes funding to the Hospital in recognition of the disproportionate level of care provided to indigent patients and to defray some of the costs associated with graduate medical education. The LIP is a federal matching program which provides states with the opportunity to receive additional distributions based upon the difference between Medicaid reimbursement and the amount that would have been received for the same patients using Medicare reimbursement formulas, as defined. Medicaid fee for service is paid based on inpatient per diem and outpatient per line rates and may be adjusted based on annual cost report submissions.

The total funding amounts from the LIP and trauma programs were \$33.5 million and \$30.7 million in fiscal years 2010 and 2009, respectively, and are reported as disproportionate share distributions in the accompanying statements of operations. Since July 1, 2001, the Hospital receives trauma funding of approximately \$3.5 million per year from the Hillsborough County Health Plan to supplement the Hospital's reimbursement for trauma services rendered to Hillsborough County residents.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

Under the terms of an agreement with the Hillsborough County Health Plan, the Hospital is paid for authorized services provided to eligible recipients based on contracted rates. The contract renews on an annual basis and is currently through June 30, 2011. These payments are subject to certain limits (network caps) for each network per contract, including amounts the Hospital must reimburse physicians. For the years ended September 30, 2010 and 2009, approximately \$17.7 million and \$17.3 million, respectively, were included in net patient services revenue relating to this contract.

(13) Affiliated Organizations

The Foundation was established to solicit contributions from the general public on behalf of the Hospital for the funding of capital acquisitions and to support Hospital programs. As of September 30, 2010 and 2009, the Foundation held assets for the Hospital that were temporarily and permanently restricted by donors. The Hospital's interest in the net assets of the Foundation is included in assets limited as to use in fiscal years 2010 and 2009, and amounted to approximately \$ 3,961,000 and \$17,194,000, respectively.

The University of South Florida Board of Trustees (the University) has an affiliation agreement with the Center. The affiliation agreement establishes the Center as the primary teaching hospital for the University in order to provide health care education and training for students, residents, and other healthcare professionals. In accordance with the affiliation agreement, the University assigns physicians and residents to provide the customary services of the Center. For the years ended September 30, 2010 and 2009, the Center paid the University approximately \$40,575,000 and \$32,736,000, respectively, for these services which also include the residents' salaries and the related malpractice coverage and medical director fees. These amounts are recorded within professional fees and other in the accompanying statements of operations and changes in unrestricted net assets, including approximately \$5,984,000 that was previously reported in other nonoperating gains (losses) for the year ended September 30, 2009.

(14) Subsequent Events

The Center has evaluated events and transactions occurring subsequent to September 30, 2010 as of January 24, 2011, which is the date the financial statements were issued. On March 1, 2010, the Center entered into a purchase agreement for land totaling 9.61 acres located at 1307 West Kennedy Boulevard in the city of Tampa. The purchase price was \$12,250,000 and closed in October 2010.

SUPPLEMENTARY INFORMATION



KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

The Board of Directors
Florida Health Sciences Center, Inc.:

We have audited the consolidated financial statements of Florida Health Sciences Center, Inc. (the Center) as of and for the year ended September 30, 2010, and have issued our report thereon dated January 24, 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 Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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 weakness. 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 Center'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 board of directors, the audit committee, management, others within the entity, and 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.

KPMG LLP

January 24, 2011
Certified Public Accountants



KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

**Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal
Control over Compliance in Accordance with OMB Circular A-133
and Chapter 10.650, Rules of the Auditor General**

The Board of Directors
Florida Health Sciences Center, Inc.:

Compliance

We have audited Florida Health Sciences Center, Inc.'s compliance 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 *Executive Office of the Governors State Projects Compliance Supplement* that could have a direct and material effect on each of Florida Health Sciences Center, Inc.'s major federal programs and state projects for the year ended September 30, 2010. Florida Health Sciences Center, Inc.'s major federal programs and state projects 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 programs and state projects is the responsibility of Florida Health Sciences Center, Inc.'s management. Our responsibility is to express an opinion on Florida Health Sciences Center, Inc.'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 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.650, *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 program or state project occurred. An audit includes examining, on a test basis, evidence about Florida Health Sciences Center, Inc.'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 Florida Health Sciences Center, Inc.'s compliance with those requirements.

In our opinion, Florida Health Sciences Center, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended September 30, 2010.

Internal Control over Compliance

Management of Florida Health Sciences Center, Inc. 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 projects. In planning and performing our audit, we considered



Florida Health Sciences Center, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project to determine the 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 10.650, 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 Florida Health Sciences Center, Inc.'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 program or state project 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 program or state project 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 management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 25, 2011, except for the Schedule of Expenditures
of Federal Awards and State Financial Assistance,
which is as of January 24, 2011
Certified Public Accountants

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended September 30, 2010

Federal or State Grantor/Pass Through Agency/Program Title	CFDA or CSFA number	Agency or pass through grant number	Expenditures
U.S. Department of Education:			
Direct Program:			
Florida Alliance for Assistive Services and Technology	84.224	10-CFRDC	\$ 84,282
Florida Alliance for Assistive Services and Technology	84.224	10-CFRDC-Amendment 1	10,000
Total U.S. Department of Education			<u>94,282</u>
U.S. Department of Health and Human Services:			
Direct Program:			
Poison Control Center Enhancement and Awareness	93.253	1H4BHS15550-01-00	464,569
Total U.S. Department of Health and Human Services			<u>464,569</u>
U.S. Department of Homeland Security:			
Passed Through Office of Emergency Management (FEMA)			
Hazard Mitigation Program	97.039	08HM-1G-08-39-08-014	1,776,040
Passed Through State of Florida Department of Community Affairs:			
Disaster Grants – Public Assistance	97.036	05-PA-G%-08-39-08-128	362,383
Total U.S. Department of Homeland Security			<u>2,138,423</u>
			\$ <u>2,697,274</u>
Florida Department of Education:			
Passed Through Florida Alliance for Assistive Services and Technology:			
FL Department of Health, Brain and Spinal Cord Injury Program	64.040	COR H6, R3, A2 10-CFRDC	\$ 13,720
FL Department of Health, Brain and Spinal Cord Injury Program	64.040	10-CFRDC-Amendment 2	10,000
Total Florida Department of Education			<u>23,720</u>
State of Florida Department of Health:			
Poison Information Center	64.014	Contract # COQOG	475,774
Trauma Center Financial Support	64.075	MOU TRA-20	261,227
Total State of Florida Department of Health			<u>737,001</u>
Total Expenditures of State Financial Assistance			\$ <u>760,721</u>

See accompanying notes to schedule of expenditures of federal awards and state financial assistance.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended September 30, 2010

(1) General

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) presents the activity of all federal and state programs administered by Florida Health Sciences Center, Inc. (the Center). Awards received directly from federal and state agencies, as well as those passed through other governmental agencies, are included on the Schedule. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

(2) Basis of Accounting

Federal and state programs administered by the Center are accounted for within the Center's operating funds. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance has been prepared on the same basis of accounting as the Center's financial statements. The Center's financial statements are prepared in accordance with generally accepted accounting principles. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

(3) Relationship to Financial Statements

Federal awards and state financial assistance revenues are reported in the Center's financial statements as other revenue.

(4) Contingencies

Grant monies received and disbursed by the Center are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Center does not believe that such disallowances, if any, would have a material effect on the financial position of the Center. Management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2010

(1) Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance which is material to financial statements noted? _____ Yes X No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) Circular A-133? _____ Yes X No

Identification of major programs:

CFDA #	Federal Programs
93.253	Poison Control Center Enhancement and Awareness
97.036	Disaster Grants – Public Assistance
97.039	Hazard Mitigation Program

The threshold for distinguishing Type A and Type B programs was \$300,000 for federal programs.

Auditee qualified as low-risk auditee? _____ X Yes _____ No

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2010

State projects:

Internal control over major projects:

- Material weakness(es) identified? _____ Yes ___X___ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes ___X___ None reported

Type of auditors' report issued on compliance for major projects: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, *Rules of the Auditor General*? _____ Yes ___X___ No

Identification of major projects:

CSFA #	State Projects
64.075	Trauma Center Financial Support
64.014	Poison Information Center

The threshold for distinguishing Type A and Type B projects was \$300,000 for state projects.

- (2) **Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*:** None
- (3) **Findings and Questioned Costs Relating to Major Federal Programs:** None
- (4) **Findings and Questioned Costs Relating to Major State Projects:** None
- (5) There are no items related to state financial assistance required to be reported in a management letter pursuant to *Rules of the Auditors General*.