Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

University Medical Service Association, Inc. and University of South Florida Medical Service Support Corporation

(a component unit of the University of South Florida)

June 30, 2019

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Management's Discussion and Analysis (unaudited)

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of University Medical Service Association, Inc. and University of South Florida Medical Services Support Corporation (UMSA/MSSC) as of and for the fiscal year ended June 30, 2019, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of UMSA/MSSC management. The MD&A contains financial activity of UMSA/MSSC for the fiscal year ended June 30, 2019.

FINANCIAL HIGHLIGHTS

Statement of Net Position

The UMSA/MSSC assets and deferred outflows of resources totaled $155.0 million at June 30, 2019.

Current assets consist of $33.6 million in cash and short term investments, $19.2 million for patient accounts receivable, less allowances for contractual adjustments and bad debt, $41.8 million in contract and other receivables, and $5.2 million in inventory and other current assets.

Non-current assets primarily consist of $54.5 million of capital assets, net of accumulated depreciation.

Current liabilities consist of $18.2 million in accounts payable, $17.9 million in accrued salaries, wages, benefits and other accrued expenses. Current portion of capital leases and financing obligations is $2.6 million. Other liabilities were $1.9 million.

Non-current liabilities total $48.0M with most of the long-term obligations in financing obligations for buildings leased and financed through the USF Financing Corporation.

Statement of Revenues, Expenses, and Changes in Net Position

UMSA/MSSC's operating revenues totaled $302.1 million for the 2018-19 fiscal year, consisting of $212.2 million in net patient service revenue, $76.1 million in revenue from contracts, grants and awards, and $13.8 million in other operating revenue.

Operating expenses totaled $291.7 million for the 2018-19 fiscal year, consisting of $191.9 million in salaries and wages for faculty and staff, $82.4 million in operating expenses, $4.2 million for malpractice expense, $8.6 million for rent, repairs and maintenance, and $4.7 million in depreciation expense.

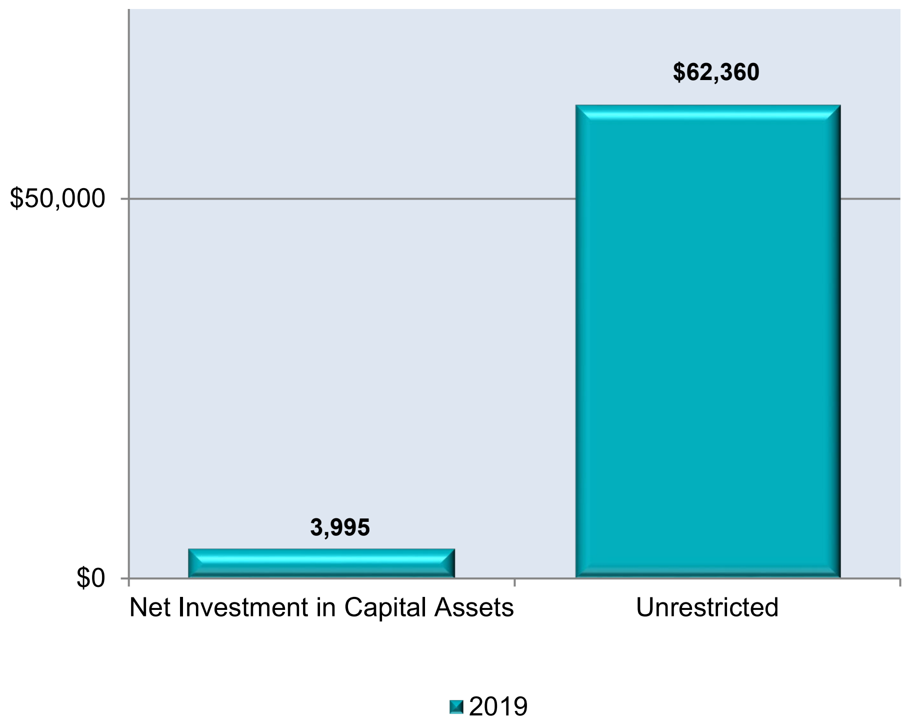
Non-operating revenue and expenses consist of investment income, loss on disposal of assets and interest on capital asset related debt in the amount of ($1.2) million.

Net position represents the residual interest in UMSA/MSSC's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources.

UMSA/MSSC's total net position by category at June 30, 2019 is shown in the following graph:

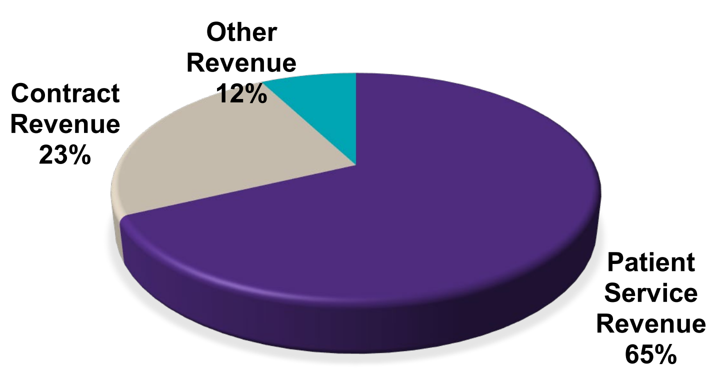
Net Position

(In Thousands)



The following chart provides a graphical presentation of UMSA/MSSC revenues by category for the 2018-19 fiscal year:

Total Revenues
2018-19Fiscal Year



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, UMSA/MSSC's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass UMSA/MSSC.

The Statement of Net Position

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of UMSA/MSSC, using the accrual basis of accounting, and presents the financial position of UMSA/MSSC at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of UMSA/MSSC's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the UMSA/MSSC's financial condition.

The following summarizes the UMSA/MSSC's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

Condensed Statement of Net Position at June 30, 2019

Assets	
Current assets	$ 99,790,604
Capital assets, net	54,542,436
Other non-current assets	679,275
Total assets	155,012,315
Liabilities	
Current liabilities	40,637,118
Noncurrent liabilities	48,019,857
Total liabilities	88,656,975
Net position	
Net investment in capital assets	3,995,489
Unrestricted	62,359,851
Total net position	$ 66,355,340

The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents UMSA/MSSC's revenue and expense activity, categorized as operating and non-operating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes UMSA/MSSC's activity for the 2018-19 fiscal year:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year

Operating Revenues	$ 302,121,259
Less, operating expenses	(291,726,950)
Operating Income (Loss)	10,394,309
Net nonoperating revenues	(1,210,975)
Income (Loss) before other revenues, expenses, gains, or losses	9,183,334
Other revenues, expenses, gains, or losses	-
Net increase in net position	9,183,334
Net position, beginning of year	57,172,006
Net position, end of year	$ 66,355,340

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or non-operating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

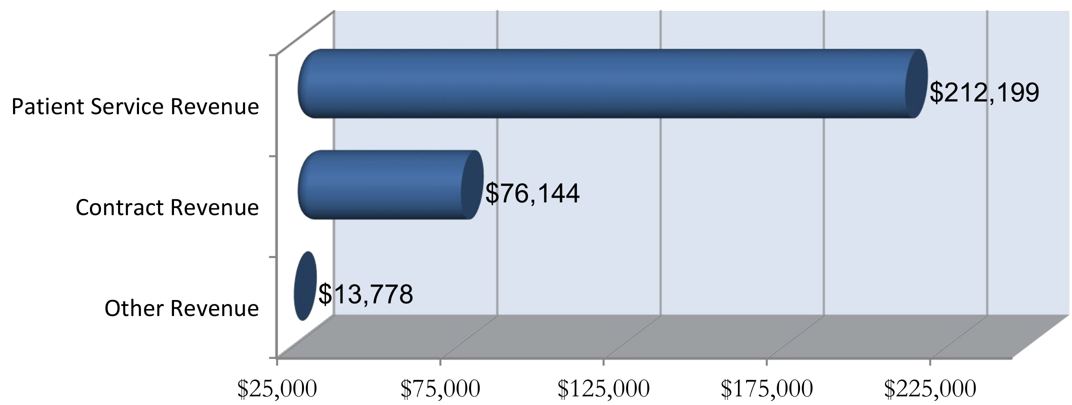
The following summarizes the operating revenues by source that were used to fund operating activities for the 2018-19 fiscal year:

Operating Revenues
For the Fiscal Year

Operating Revenues	
Patient service revenue (net of contractual allowances and discounts)	$ 222,159,645
Provision for bad debts	(9,960,355)
Net patient service revenue less provision for bad debts	212,199,290
Grants, contracts and awards revenue	76,144,324
Other operating revenue	13,777,645
Total revenues and other support	$ 302,121,259

The following chart presents the UMSA/MSSC's operating revenues for the 2018-19 fiscal year:

Operating Revenues
(In Thousands)



Operating Expenses

Expenses are categorized as operating or non-operating. The majority of the UMSA/MSSC's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. UMSA/MSSC has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position.

The following summarizes operating expenses by natural classification for the 2018-19 fiscal year:

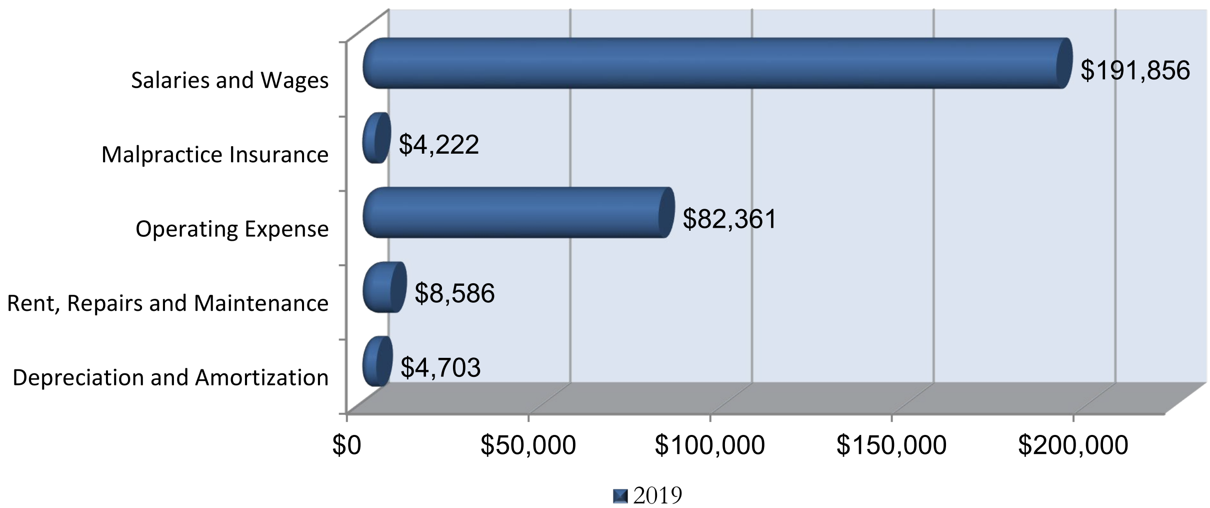
Operating Expenses
For the Fiscal Year

Operating Expenses:		
Contributions on behalf of the Morsani College of Medicine:		
Salaries and Wages - Faculty and Staff	$	193,600,797
Excess FICA refunds		(1,745,112)
Malpractice insurance support		4,221,619
Operating expenses		82,360,577
Rent, repairs and maintenance		8,586,117
Depreciation		4,702,952
Total operating expenses	$	291,726,950

The following chart presents UMSA/MSSC's operating expenses for the 2018-19 fiscal year:

Operating Expenses

(In Thousands)



Nonoperating Revenues and Expenses

Certain revenue sources that the UMSA/MSSC relies on to provide funding for operations, including certain gifts and grants, and investment income, are defined by GASB as non-operating. Non-operating expenses include capital financing costs and other costs related to capital assets.

The following summarizes the UMSA/MSSC's non-operating revenues and expenses for the 2018-19 fiscal year:

Nonoperating Revenues (Expenses)
For the Fiscal Year

Nonoperating Revenues (Expenses)		
Investment income, net	$	422,099
Gain/(loss) on disposal of capital assets		(240)
Interest on capital asset-related debt		(1,632,834)
Nonoperating Revenues (Expenses)	$	(1,210,975)

The Statement of Cash Flows

The statement of cash flows provides information about UMSA/MSSC's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating UMSA/MSSC's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of UMSA/MSSC. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2018-19 fiscal year:

Condensed Statement of Cash Flows
For the Fiscal Year

Cash Provided (Used) by:	
Operating Activities	$ 12,192,141
Capital Financing Activities	(7,136,232)
Investing Activities	(2,961,722)
Net Increase in Cash and Cash Equivalents	2,094,187
Cash and Cash Equivalents, Beginning of Year	6,660,507
Cash and Cash Equivalents, End of Year	$ 8,754,694

Major sources of funds came from Patient Service Revenue of $179.6 million and contractual relationships for faculty support and other services of $142.4 million. Major uses of funds were for payments made to and on behalf of employees totaling $237.1 million and payments to suppliers totaling $73.6 million.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, UMSA/MSSC had $122.3 million in capital assets, less accumulated depreciation of $67.8 million, for net capital assets of $54.5 million. Depreciation charges for the current fiscal year totaled $4.4 million. The following table summarizes UMSA/MSSC's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	2019
Building- Other	$ 48,440
Furniture & Fixtures	233
Office Equipment	47
Medical Equipment	3,455
Computer Hardware	900
Computer Software	298
Leaseholds	1,047
CIP	122
Capital Asses, Net	**$ 54,542**

Additional information about UMSA/MSSC's capital assets is presented in the notes to the financial statements.

Debt Administration

As of June 30, 2019, UMSA/MSSC had $48.0 million in capital lease(s) payable, consisting of $47.5 million related to building leases and $545k related to equipment leases and accrued rent. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

		2019
Financing obligations, net of current portion	$	47,475,265
Capital leases, net of current portion		430,545
Accrued rent – long-term portion		114,047
Total	$	48,019,857

Additional information about USMA/MSSC's long-term debt is presented in the notes to financial statements.

Economic Factors That Will Affect the Future

Although Fiscal Year 2019 shows a strong financial position for UMSA/MSSC, there are potential economic factors that could impact its strength in the future. First, the reimbursement environment is changing in health care. As reimbursement models move towards a more value-based focus, future reimbursement may be at risk if UMSA/MSSC doesn't adapt to the move from volume-based to value-based reimbursement. Second, stabilizing physician compensation is critical for the future success of UMSA/MSSC. As community-based medical group, UMSA/MSSC has been increasingly challenged with matching the market compensation demands for its clinical faculty. With the added pressures of research and teaching support, UMSA/MSSC can't simply compete with its private practice colleagues on compensation. Third, as a result of UMSA/MSSC's status as a "faculty practice plan", UMSA/MSSC receives physician supplemental and low income pool enhanced reimbursement of $26 million dollars the State of Forida Agency for Health Care Administration and the Centers for Medicare and Medicaid Services (CMS). The purpose of this funding is to ensure access to quality patient care for the medically underserved populations, including those with Medicaid and those who qualify for charity. This funding will continue to be a major contribution to the bottom line of UMSA/MSSC for the next several years, but the organization will have to demonstrate investment in improving access and outcomes of these patients. Finally, UMSA/MSSC is also in negotiations with Tampa General Hospital to develop a jointly managed clinical operating entity. This relationship could help mitigate the significant pressure that many of the economic factors addressed above.

Requests for Information

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Alisha Ozmeral, Chief Financial Officer and Associate Executive Director of Support Services, UMSA, Inc., 12901 Bruce B. Downs Blvd, MDC62 – Tampa, FL 33612.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
University Medical Service Association, Inc. and
University of South Florida Medical Services Support Corporation

Report on the financial statements

We have audited the accompanying financial statements of University Medical Service Association, Inc. (a nonprofit organization) and University of South Florida Medical Services Support Corporation (a nonprofit organization) (collectively, the “Company”),(a component unit of the University of South Florida), as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively compromise of the Company’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility
Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Medical Service Association, Inc. and University of South Florida Medical Services Support Corporation as of June 30, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 8 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note A to the financial statements, management has elected to omit the 2017 and 2018 management's discussion and analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such omitted information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements in is not affected by this omitted information.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 14, 2019, 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. The purpose of that report is solely 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 effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Grant Thornton LLP

Tampa, Florida
October 14, 2019

Statement of net position

June 30	2019
	$
Assets	
Current assets:	
Cash and cash equivalents	8,754,694
Short-term investments	24,842,443
Patient accounts receivable, less allow ances for contractual adjustments and doubtful accounts	19,181,272
Grants, contracts and aw ards receivable	12,675,601
Other receivables	29,113,070
Inventory	1,875,626
Other current assets	3,347,898
Total current assets	99,790,604
Capital assets, net	54,542,436
Other non-current assets	679,275
Total assets	**155,012,315**
Liabilities and net postion	
Current liabilities:	
Accounts payable	18,215,318
Accrued salaries and w ages	10,691,932
Current portion of capital leases	396,356
Current portion of financing obligations	2,244,781
Accrued expenses and other liablilities	7,207,175
Other Liabilities	656,042
Current portion of deferred rent	42,207
Deferred revenue	1,183,307
Total current liabilities	40,637,118
Noncurrent liabilities:	
Financing obligations, net of current portion	47,475,265
Capital leases, net of current portion	430,545
Accrued rent – long-term portion	114,047
Total liabilities	88,656,975
Net Position:	
Invested in capital assets, net of related debt	3,995,489
Unrestricted	62,359,851
Total net position	**66,355,340**

Statement of revenues, expenses, and changes in net position

For the year ended June 30	2019
	$
Operating Revenues	
Net patient service revenue (net of provision for bad debts of $9,960,355)	212,199,290
Grants, contracts and awards revenue	76,144,324
Other operating revenue	13,777,645
Total revenues and other support	302,121,259
Operating Expenses:	
Contributions on behalf of the Morsani College of Medicine:	
Salaries and Wages - Faculty and Staff	193,600,797
Excess FICA refunds	(1,745,112)
Malpractice insurance support	4,221,619
Operating expenses	82,360,577
Rent, repairs and maintenance	8,586,117
Depreciation	4,702,952
Total operating expenses	291,726,950
Operating income	10,394,309
Nonoperating Revenues (Expenses)	
Investment income, net	422,099
Gain/(loss) on disposal of capital assets	(240)
Interest on capital asset-related debt	(1,632,834)
Increase in net position	9,183,334
Net position, beginning of year	57,172,006
Net position, end of year	66,355,340

Statement of cash flows

For the year ended June 30	2019
	$
Cash flows from operating activities:	
Cash received from and on behalf of patients	179,627,369
Other receipts from operations	144,671,600
Cash paid to employees	(237,106,695)
Cash paid to suppliers	(75,000,133)
Net cash provided by operating activities	12,192,141
Cash flows from capital and related financing activities:	
Principal paid on building leases	(2,251,556)
Principal paid on equipment leases	(436,969)
Purchases of capital assets	(2,814,634)
Proceeds from disposition of assets	(240)
Interest payments	(1,632,833)
Net cash used in capital and related financing activities	(7,136,232)
Cash flows from investing activities:	
Interest and dividends on investments	422,099
Purchases of investments	(3,383,821)
Net cash used in investing activities	(2,961,722)
Net increase in cash and cash equivalents	2,094,187
Cash and cash equivalents, beginning of year	6,660,507
Cash and cash equivalents, end of year	8,754,694

The accompanying notes are an integral part of this financial statement.

Statement of cash flows (cont'd)

For the year ended June 30	2019
	$
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	10,394,309
Adjustments:	
Depreciation and amortization	4,702,952
Provision for bad debts	9,960,355
Changes:	
Patient accounts receivable	(11,360,086)
Grants, contracts, and aw ards receivable	(4,011,774)
Other receivables	(4,548,663)
Due from University of South Florida	4,349,012
Due to/from HSSO	(83,250)
Due from University of South Florida Financing Corporation	1,023,749
Due to/from USF Health Professions Conferencing Corporation	(45,655)
Prepaid expenses and other current and long-term assets	(410,155)
Accounts payable	1,292,018
Accrued expenses	1,229,094
Deferred revenue	(286,549)
Accrued rent	(70,457)
Due from USF Foundation	57,241
Net cash provided by operating activities	12,192,141

Note A – Organization

University Medical Service Association, Inc. (UMSA) and the University of South Florida Medical Services Support Corporation (MSSC) (collectively, the Company) are Florida not-for-profit corporations that are direct support organizations of the University of South Florida (the University) and are related to the University of South Florida Morsani College of Medicine (Morsani College of Medicine) through common control.

UMSA is the Faculty Practice Plan of the Morsani College of Medicine. UMSA bills, collects, manages and disburses the fees for medical services rendered by the faculty of the Morsani College of Medicine. UMSA disburses funds on behalf of the Morsani College of Medicine and at the direction of the Morsani College of Medicine. Such disbursements are included as contributions on behalf of the Morsani College of Medicine in the accompanying statement of revenues, expenses, and changes in net position.

MSSC was established to operate health care facilities. MSSC operates health care facilities on behalf of, and at the direction of, the Morsani College of Medicine. Prior to transitioning operations to UMSA during the year ended June 30, 2016, MSSC provided supervision and certain nonphysician personnel in support of the operations of facilities, which the University owns and/or governs, and utilizes for its education, research and patient programs.

With consideration given to recent court rulings around the eligibility of direct-support organizations for sovereign immunity, on September 16, 2015, the University's Board of Trustees approved the transition of MSSC's operations to UMSA over the course of the year ended June 30, 2016. MSSC will continue to be a direct-support organization of the University, but it will have no operations when the transition is completed. The University's agreement with UMSA was amended to eliminate certain limitations related to the operations of UMSA which were designed to protect UMSA from medical liability exposure.

Effective July 1, 2018, the Company is controlled by the University due to recent changes in the *Florida Statutes* which require prospective approval of all new direct support organization board members by the related university board of trustees other than those members or members appointed by the Trustee Chair or President. Accordingly, effective July 1, 2018, the Company is a governmental entity and is required to present its financial statements under accounting principles applicable to governmental units as established by the Governmental Accounting Standards Board (GASB).

The Company's prior year financial statements were presented in accordance with the accounting principles applicable to non-governmental units as established by the Financial Accounting Standards Board (FASB). The net impact of the conversion as of July 1, 2018 is reflected in the table below and it is comprised of an approximate $11.9 million impact of derecognizing the contributed use of software and related costs (see Note L) and of an approximate $2.7 million impact of derecognizing certain related party receivables. The accompanying financial statements include only the financial position and performance of the Company as of and for the year ended June 30, 2019:

	$
Net assets under FASB as previously reported June 30, 2018	71,788,232
Net impact of conversion to GASB	(14,616,226)
Net position July 1, 2018	57,172,006

Note B – Summary of Significant Accounting Policies

Basis of Presentation

The Company's financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the GASB. The GASB has issued Statement No. 35, *"Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities"* and Statement No. 39, *"Determining Whether Certain Organizations Are Component Units."* The financial statement presentation required by these statements provides a comprehensive, entity-wide perspective of the Company's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows and replaces the fund-group perspective previously required. In addition, these statements require the Company to present a Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplemental information and precedes the financial statements. As a result of the July 1, 2018 conversion to GASB, the Company has elected to present single year financial statements. Accordingly, the 2019/2018 and 2019/2017 year-to-year comparison and related MD&A has been excluded from this report.

Basis of Accounting

For financial reporting purposes, the Company is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and operating expenses. All other activities are reported as nonoperating activities.

The Company's financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus and are based on accounting principles applicable to governmental units as established by the Governmental Accounting Standards Board (GASB) and the provisions of the American Institute of Certified Public Accountants "*Audit and Accounting Guide, Health Care Entities,*" to the extent that they do not conflict with GASB.

Principles of Combination

The financial statements for the year ended June 30, 2019 are presented on a blended basis as a result of common control, operations, and management of UMSA and MSSC. All intercompany transactions and balances have been eliminated in combination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates include the determination of the allowances for doubtful accounts and contractual adjustments, reserves for employee healthcare claims, accrued professional liability costs, and estimated third-party payor settlements. In particular, 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 related to these programs will change by a material amount in the near term.

Pending Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, "*Leases*." This statement provides guidance for lease contracts for nonfinancial assets – including vehicles, heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). The lease definition now focuses on a contract that coveys control of the right to use another entity's nonfinancial assets, which is referred to in the new Statement as the underlying asset. Under Statement No. 87, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. The requirements of the Statement are effective for reporting periods beginning after December 15, 2019 with early adoption permitted. The Company has not adopted this Statement early. The Company is still assessing the impact of Statement No. 87 on its financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents that have been set aside to invest in trading securities are classified as investments.

Investments consist of money market funds, certificates of deposit with original matures greater than three months, marketable securities, corporate bonds and treasury obligations.

The Company classifies all equity securities and debt securities maturing within one year of the statement of net position, not otherwise designated for long-term use, as current assets. Investments in securities with maturity dates beyond one-year form the statement of net position date and other investments designated for long-term use are classified noncurrent assets.

Investment Valuation and Investment Income Recognition

The Company's investments are stated at fair value. See Note E for a discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Inventory Valuation

Inventories consist primarily of drugs and medical supplies and are stated at the lower of cost or market with costs being determined using the weighted average method, which approximates the first-in first-out method. New purchases are added to existing inventory and the unit price becomes the average of the items on hand and the new items as they are received. The Company reviews inventory for obsolescence and loss of value and records adjustments to inventories as they occur. No reserves were deemed necessary as of June 30, 2019.

Allowance for Doubtful Accounts

Additions to the allowance for doubtful accounts are made by means of the provision for bad debts. Accounts receivable are written off after collection efforts have been followed in accordance with the Company's policies. The Company's policy for collection on self-pay balances include sending multiple statements with progressive dunning messages, automated eligibility checking for possible Medicaid funding, telephone calls to patients with upcoming appointments and/or outstanding self-pay balances after receipt of one patient statement, as well as focused attention on accounts with balances greater than $3,500 which includes coordination with affiliated hospitals regarding charity care and any other possible funding sources. Accounts written off as uncollectible are deducted from the allowance, and subsequent recoveries are recognized in the period of recovery.

Allowance for doubtful accounts for self-pay patients was 20.9% of self-pay accounts receivable, at June 30, 2019. The Company's self-pay write-offs increased $1,583,000 to $10,174,000 for fiscal year 2019.

The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state government health care coverage, and other collection indicators. The primary tool used in management's assessment is a periodic, detailed review of historical collections and write-offs that represent a majority of the Company's revenues and accounts receivable. The results of the detailed review of historical collections and write-offs experience, adjusted for changes in trends and conditions, are used to evaluate the allowance amount for the current period.

The Company has not changed its charity care policy during fiscal year 2019. The Company does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs of doubtful accounts from third-party payors.

Capital Assets

Capital assets are stated at cost on the date of acquisition. The Company's capitalization policy for assets includes all items with a unit cost of more than $5,000. The Company provides for depreciation using the straight-line method over the following expected useful lives:

Asset Class	Estimated Useful Lives
Buildings and improvements	40 years
Medical and other equipment	5-7 years
Computer hardware and software	3-5 years
Furniture and fixtures	5 years
Leasehold improvements	5 years(or lease term if shorter)

The cost of maintenance and repairs of capital assets is charged to expense as incurred, while costs of renewals and betterments are capitalized in the property accounts. When properties are replaced, retired, or otherwise disposed of, the costs of such properties and the related accumulated depreciation are deducted from the respective asset and accumulated depreciation accounts.

Income Taxes

UMSA and MSSC have been recognized by the Internal Revenue Service (IRS) as tax-exempt organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, and are exempt from federal and state taxes on related income pursuant to the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively.

The Company periodically assesses whether it has incurred income tax expense or related interest or penalties, which are recognized in income tax expense in accordance with accounting for uncertain tax positions. The Company did not identify any uncertain tax positions as of June 30, 2019.

Net Position

The Company's net position is classified as unrestricted, invested in capital assets, net of related debt, and restricted as follows:

> *Unrestricted net position* – These net position balances represent resources that may be used at the discretion of the Company's management and Board of Directors in carrying out its objectives.
>
> *Invested in Capital Assets, Net of Related Debt* – These net position balance represent capital assets, net of accumulated depreciation, and are reduced by the balances of any outstanding borrowings used to finance the acquisition of those assets.

Revenues are reported as an increase in unrestricted net position unless the use of related resources is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net position.

Statement of Revenues, Expenses and Changes in Net Position

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and operating expenses. Peripheral or incidental transactions, investment income and financing costs are reported as nonoperating revenue and expenses.

Net Patient Service Revenue

Net patient service revenue is assigned to UMSA by the Morsani College of Medicine and relates to fees for medical services rendered by the faculty and staff of the Morsani College of Medicine. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, including the Medicare and Medicaid programs, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

For the year ended June 30, 2019, net patient service revenue reflects a shortfall in estimated collections of approximately $1,772,000 due to actual contractual and other allowances incurred in 2019 for pre July 1, 2018 dates of service being greater than such estimated amounts.

Payments under various programs are based upon discounts from charges, per diem arrangements or per case arrangements. The composition of patient service revenue (net of contractual allowances and discounts) for the year ended June 30, 2019 as follows:

Program	Total %
Managed care	68%
Medicare	15%
Medicaid	2%
Private contractual agreements	15%

UMSA receives fee schedule based payments for outpatient Medicaid services rendered. In addition, UMSA is eligible to receive distributions from the Agency for Health Care Administration based on physician-specific eligibility requirements. UMSA's policy is to recognize income as amounts are due and collection is reasonably assured. The receipt of additional distributions is contingent upon future actions by the State of Florida Legislature. During the year ended June 30, 2019, UMSA recognized approximately $25,942,000 for payments accrued under this program. These amounts are included in net patient service revenue in the accompanying statement of revenue, expenses and changes in net position.

Grants, Contracts and Awards Revenue

Income from grants, contracts and awards is recognized as the requirements of the grants, contracts or awards are met.

Grant monies received and disbursed by the Company are for specific purposes and are subject to audit by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based on prior experience, the Company does not believe that such disallowances, if any, would have a material effect on its financial position. As of June 30, 2019, management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

Excess FICA Refunds

The salaries of certain members of the faculty of the Morsani College of Medicine are paid by both the University and the University of South Florida Academic Support Fund (ASF) (see Note G). As a result of this arrangement, several of these individuals receive combined compensation from the University and ASF in excess of the Federal Insurance Contributions Act (FICA) wage base limit in each calendar year. Since the payroll for these individuals is processed on two different systems, both the University and ASF continue to make employer FICA contributions until an individual exceeds the wage base limit on each entity's payroll system. Because of this setup, in each calendar year, the University and ASF over contribute employer FICA contributions, on a combined basis, for individuals whose total compensation paid by both entities is above the FICA wage base limit. Since the University and ASF are considered a common paymaster by the IRS, ASF can apply for a refund of these excess FICA contributions.

The Company's policy is to record FICA refunds in the year in which the refund is formally applied for with the IRS by ASF. During the year ended June 30, 2019, ASF filed for excess FICA overpayments for calendar year 2018 totaling approximately $1,745,000. Amounts included in other receivables in the accompanying statement of net position as of June 30, 2019 are approximately $1,745,000.

Other Operating Revenue and Operating Expenses

Other operating revenue consists of expense reimbursements, legal fee revenue, honorariums, and other funds received from miscellaneous sources. Operating expenses consist of costs associated with administrative staff and expenses in support of the Faculty Practice Plan activities.

The Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs provide incentive payments to eligible professionals, eligible hospitals and critical access hospitals (CAHs) as they adopt, implement, upgrade or demonstrate meaningful use of certified EHR technology. Eligible professionals can receive up to $44,000 through the Medicare EHR Incentive Program and up to $63,750 through the Medicaid EHR Incentive Program. The Company qualified for and received meaningful use payments in the amount of $184,000 for the year ended June 30, 2019. This amount is included in other operating revenue in the accompanying statement of revenues, expenses, and changes in net position.

Accrued Rent

The Company has entered into various office space lease agreements which specify escalating rent payments over the terms of the leases. Rent expense is recorded using the straight-line method over the respective lease term. Total accrued rent related to the leases was approximately $156,000 as of June 30, 2019.

Charity Care

The faculty and staff of the Morsani College of Medicine provide care to patients who meet certain criteria under the Morsani College of Medicine's charity care policy without charge or at amounts less than its established rates. A patient is classified as a charity patient by reference to certain policies established by the Morsani College of Medicine.

The Company maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services under its charity care policy, as well as the number of charity care patients served. The level of charity care provided (charges foregone, based upon established rates) totaled approximately $7,104,000 for the year ended June 30, 2019.

The estimated cost of services and supplies furnished under the Morsani College of Medicine charity care policy totaled approximately $2,311,000 for the year ended June 30, 2019, and is estimated based on a ratio of the Company's operational costs to its net revenue.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, patient accounts receivable, grants, contracts and awards receivable, other receivables, and investments.

The Company maintains its cash and cash equivalents and investments with what management has determined to be high credit quality financial institutions. As of June 30, 2019, all of the Company's cash and cash equivalents were held at a single financial institution and are above the Federal Deposit Insurance Corporation insurance limit.

The Company grants credit without collateral to patients, most of whom are residents of Hillsborough County, Florida, and most of whom are insured under third-party payor agreements. Managed care contracts represent 61.8% of the Company's gross patient accounts receivable as of June 30, 2019. Medicaid represents 5.2% of the Company's gross patient accounts receivable as of June 30, 2019. Medicare represents 13.0% of the Company's gross patient accounts receivable as of June 30, 2019. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services. Patient accounts receivable are reported net of an estimated allowance for contractual adjustments and doubtful accounts in the accompanying statement of net position.

Subsequent Events

The Company has evaluated its June 30, 2019 financial statements for subsequent events through October 14, 2019, the date at which the financial statements were available to be issued. The Company is not aware of any subsequent events, which would require recognition or disclosure in the financial statements.

Note C – Capital Assets

Capital asset additions, retirements and balances are as follows for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Retirements/ Adjustments	Balance June 30, 2019
	$	$	$	$
Capital assets not being depreciated:				
Construction in progress	3,631	-	118,344	121,975
	3,631	-	118,344	121,975
Capital assets being depreciated:				
Building	67,086,545	-	-	67,086,545
Medical and other equipment	19,981,717	1,364,062	(143,933)	21,201,846
Furniture and fixtures	2,424,320	57,591	-	2,481,911
Leasehold improvements	2,842,810	545,612	-	3,388,422
Computer hardware and software	27,173,308	1,275,635	(402,677)	28,046,266
	119,508,700	3,242,900	(546,610)	122,204,990
Accumulated depreciation:				
Building	(16,969,689)	(1,677,164)	-	(18,646,853)
Medical and other equipment	(16,542,178)	(1,250,782)	93,584	(17,699,376)
Furniture and fixtures	(2,130,271)	(118,819)	-	(2,249,090)
Leasehold improvements	(2,000,460)	(340,870)	-	(2,341,330)
Computer hardware and software	(25,805,119)	(1,086,139)	43,378	(26,847,880)
	(63,447,717)	(4,473,774)	136,962	(67,784,529)
Capital assets, net	56,064,614	(1,230,874)	(291,304)	54,542,436

Note D – Cash, Cash Equivalents and Investments

The Company's bank balances are as follows at June 30:

	2019
	$
Insured (FDIC)	417,347
Uninsured, uncollaterated or collaterized by securities held by the pledging institution, its trust department, or agent in other than the Company's name	9,926,817
Total	10,344,164
Carrying amount (cash and cash equivalents)	8,754,694

GASB No. 40, "*Deposits and Investment Risk Disclosures,*" requires certain disclosures regarding policies and practices with respect to deposits and the custodial risk, credit risk, interest rate sensitivity and foreign investments associated with them.

The custodial credit risk for deposits is the risk that in an event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a deposit policy for custodial credit risk. The Company places its cash and cash equivalents on deposit with financial institution in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. As of June 30, 2019, approximately $9,927,000, of the Company's bank balance was in excess of the FDIC limit and is uninsured or uncollateralized.

A summary of the Company's investments in exchange traded mutual funds is as follows:

June 30, 2019	Fair Value	Percentage
	$	
Fund type		
Domestic high-grade corporate bonds	7,593,414	31%
Large cap domestic bonds	4,516,295	18%
Treasury bonds and domestic corporate bonds	10,731,252	43%
Emerging market international funds	1,319,972	5%
Large cap internation stocks	681,510	3%
Total investments	24,842,443	100%

As of June 30, 2019, the Company utilized one investment manager. The manager is required to make investments in adherence to the Company's current investment policy and objectives.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to transact, the Company will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The entire balance of the Company's investments is held by the investment manager in the Company's name as of June 30, 2019.

The Company's investment strategy utilizes the total return approach with respect to investment returns, which recognizes that total return is comprised of both income and capital gains (realized and unrealized). The primary investment objective is a total portfolio return which outperforms appropriate market and asset benchmark portfolio returns over a rolling 1, 3 and 5-year time horizon, net of all investment expenses. The secondary objective is a positive rolling 5-year real total return, net of inflation as defined by the Consumer Price Index (CPI), and net of all fund investment and operating expenses.

The Company's investment policy encourages the investment of amounts in short-term and long-term mutual funds, although investments in individual debt and equity instruments are permitted, subject to credit rating (a rating of "A" or better), maturity (less than 30 years for an individual security and less than 10 years for the portfolio as a whole), and concentration (no one equity issuer in excess of 5% of the total of investments and no one debt issuer, other than the U.S. government, in excess of 10% of the total investments) guidelines.

Note E – Fair Value Measurements

According to authoritative guidance for accounting for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, the definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different.

The authoritative guidance establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
    - quoted prices for similar assets or liabilities in active markets;
    - quoted prices for identical or similar assets or liabilities in inactive markets;

- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

- *Money Market Accounts* – Valued at the net asset value ("NAV") of shares held by the Company at year-end.
- *Domestic Bonds* – Valued at quoted market prices.
- *Domestic Stocks* – Valued at quoted market prices.
- *International Stocks* – Valued at quoted market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Company's investments at fair value as of June 30:

2019	Level 1	Level 2	Level 3	Total
Domestic high-grade corporate bonds	$ 7,593,414	$ -	$ -	$ 7,593,414
Large cap domestic stocks	4,516,295	-	-	4,516,295
Treasury bonds and domestic corporate bonds	10,731,252	-	-	10,731,252
Emerging Market International Funds	1,319,972	-	-	1,319,972
Large cap international stocks	681,510	-	-	681,510
Total investments in the fair value hierarchy	$ 24,842,443	$ -	$ -	$ 24,842,443

Investment income or loss (including realized gains and losses on investments, unrealized gains and losses, interest and dividends) is included in nonoperating gains.

Investments are recognized as trading securities due to the discretion of the custodian to buy and sell securities in a manner consistent with a prescribed investment strategy.

Investment return is summarized as follows for the year ended June 30, 2019:

	Amount
Interest and dividends	$ 493,089
Net realized (losses)	(70,990)
Total investment return	$ 422,099

Note F – Leases with Affiliates

North and South Clinic Facilities

During 2006, MSSC entered into two 30-year Clinical Facility Lease Agreements for two separate clinic buildings (known as the North Clinic Facility and South Clinic Facility) with the USF Financing Corporation (USFFC), a related conduit entity controlled by the University, who constructed the clinic buildings on MSSC's behalf. Construction for the buildings began in 2006 and was completed in 2008. Since this was a build to suit transaction with a related party (USFFC), MSSC accounted for the lease as if it were the owner of the asset during the construction phase and thereafter in accordance with generally accepted accounting principles. At that time, UMSA also entered into a Lease Guaranty, dated as of March 1, 2006, with USFFC. The Lease Guaranty provided that UMSA would unconditionally and irrevocably guarantee payment of all sub-rental payments and all other sums due and payable from MSSC to USFFC pursuant to each of the Clinical Facility Lease Agreements.

In conjunction with the transition of MSSC operations to UMSA during the year ended June 30, 2016, on June 1, 2016, MSSC, UMSA, and USFFC entered into an Omnibus Assignment of Agreements (the Omnibus Assignment). Under the Omnibus Assignment, MSSC sold, assigned, transferred, conveyed, and set over without recourse, the rights, title, interests, and obligations under the North Clinic Facility, South Clinic Facility, and Medical Office Building (MOB) Lease Agreements to UMSA.

The South Clinic Facility is located near downtown Tampa on Davis Island adjacent to Tampa General Hospital. The seven-floor, 126,000-square-foot facility allowed for expansion of services, including diagnostic imaging and other diagnostic procedures. The facility opened with full operational functionality on August 27, 2007. As a result, as of June 30, 2019, total building costs, net of accumulated depreciation, for the South Clinic totaled approximately $13,544,000. The Company paid USFFC approximately $1,126,000 during the year ended June 30, 2019, related to the lease agreement.

The North Clinic Facility is a six-story structure, incorporating 194,400 gross square feet, near the primary entry point to the Morsani College of Medicine of the University's Tampa Campus. The facility houses an imaging center, ambulatory surgery/procedure center, and outpatient facilities, including 160 clinic exam rooms. Occupancy of the facility began in August 2008 with full functionality in September 2008. As a result, as of June 30, 2019, building costs, net of accumulated depreciation, for the North Clinic totaled approximately $20,762,000. The Company paid USFFC approximately $1,632,000 during the year ended June 30, 2019, related to the lease agreement.

Medical Faculty Office Building

During 2007, MSSC entered into a 30-year lease agreement for a medical faculty office building (the MOB Facility Lease Agreement) with USFFC, whereby USFFC constructed a building on MSSC's behalf and issued certificates of participation in an amount totaling $22,800,000. Construction of the building began in 2007 and was completed in 2009. Since this was also a build to suit transaction with a related party (USFFC), MSSC accounted for the lease as if it were the owner of the asset during the construction phase and thereafter in accordance with generally accepted accounting principles. The Lease Guaranty, dated as of November 19, 2007, with USFFC, provided that UMSA would unconditionally and irrevocably guarantee payment of all sub-rental payments and all other sums due and payable from MSSC to USFFC pursuant to the MOB Facility Lease Agreement. Under the Omnibus Assignment, the lease agreement related to the medical office building was assigned from MSSC to UMSA.

The five-story, 100,000 square foot medical faculty office building is located on the Tampa campus of the University, also near the primary entry point to the Morsani College of Medicine of the University's Tampa Campus. The final accounting of project costs was completed in December 2009. Occupancy of the facility began in January 2009. As a result, as of June 30, 2019, building costs, net of accumulated depreciation, totaled approximately $14,224,000, including capitalized interest of approximately $102,000. The Company paid USFFC approximately $1,379,000 during the year ended June 30, 2019, related to the lease agreement.

As of June 30, 2017, UMSA is responsible for USFFC obligations under each of the facility lease agreements. Pursuant to these agreements, UMSA is allocated by USFFC all costs or benefits associated with these agreements. As of June 30, 2019, the Company has recorded an amount due from USFFC of approximately $1,000 This amounts are reflected on the accompanying statement of net position.

On August 19, 2014, USFFC concluded negotiations with Royal Bank of Canada (RBC) and amended the interest rate swap agreement related to the Series 2007 Health Certificates to reflect the refunding of the Series 2007 Health Certificates with the issuance of the Series 2013B Health Certificates. The collateral provisions of the amended agreement required USFFC to post cash or securities collateral totaling $1,000,000. Pursuant to the Lease Guaranty, UMSA guaranteed prompt payment of all amounts payable under the Lease Guaranty, including amounts due under the Hedge Agreement and therefore posted $1,000,000 in cash with RBC's custodian on September 4, 2014. The interest rate swap agreement expired on July 1, 2018, and the $1,000,000 collateral posted was refunded to the Company with interest at that time.

On July 1, 2016, USFFC entered into an agreement to convert the outstanding par amount of USFFC's Series 2013A Health Certificates (Series 2013A Certificates) from a variable interest rate to a long-term fixed rate for a duration period of July 1, 2016 to July 1, 2026. In conjunction with this conversion, the interest rate swap associated with the Series 2013A Certificates expired. The interest rate associated with the new agreement is fixed at 2.31%. The principal portion of financing obligations under the leases with affiliates consists of the following as of June 30, 2019:

	Amount
Facility lease agreement for South Clinic Facility, due June 30, 2036, monthly payments based on yearly service of Series 2013A Bond Certificates held by USFFC, beginning July 1, 2006 through July 1, 2006 through June 30, 2036. Effective interest rate is 2.31% for the duration of July 1, 2016 through July 1, 2026.	$ 13,462,200
Facility lease agreement for North Clinic Facility, due June 30, 2036 monthly payments based on yearly debt service of Series 2013A Bond Certificates held by USFFC, beginning July 1, 2006 through June 30, 2036. Effective interest rate is 2.31%, for the duration of July 1, 2016 through July 1, 2026.	19,777,800
Facility lease agreement for Medical Office Building, due June 30, 2037, monthly payments based on yearly debt service of Series 2013B Bond Certificates held by USFFC, beginning July 1, 2010 through June 30, 2037. Effective interest rate is 3.774%	16,480,046
	49,720,046
Less - current maturities	(2,244,781)
	$ 47,475,265

Long-term debt activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Reductions	Adjustments	Balance June 30, 2019	Amounts Due Within One Year
	$	$	$	$	$	$
Building Lease - STC	(14,116,668)	-	654,468	-	(13,462,200)	(694,607)
Building Lease - NTC	(20,728,669)	-	950,869	-	(19,777,800)	(931,545)
Building Lease - MOB	(16,914,724)	-	646,219	(211,541)	(16,480,046)	(618,629)
	(51,760,061)	-	2,251,556	(211,541)	(49,720,046)	(2,244,781)

During the fiscal year ended June 30, 2010, USFFC finalized project costs for the MOB which resulted in the realization of excess funds of approximately $2,500,000 which were available for utilization in the payment of debt service and the underlying debt service schedule was adjusted accordingly. As a result, the Company's actual monthly payments in relation to the MOB financing obligation through the year ended June 30, 2013 were less than interest costs for this period by $713,000. The cumulative difference is included in deferred interest expense in the accompanying statement of net position and will be reduced over the remaining period of the bond.

The future debt service under these financing obligations as of June 30, 2019 are as follows:

Years Ended	Principal	Interest	Total
	$	$	$
2020	2,244,781	1,456,570	3,701,351
2021	2,306,398	1,395,008	3,701,406
2022	2,378,236	1,331,569	3,709,805
2023	2,445,335	1,266,040	3,711,375
2024	2,517,705	1,198,297	3,716,002
2025-2029	13,724,499	4,897,970	18,622,469
2030-2034	15,869,143	2,847,824	18,716,967
2035-2037	8,233,949	577,936	8,811,885
Total debt service	49,720,046	14,971,214	64,691,260

Note G – Transactions with Affiliates

Expenses totaling approximately $11,966,000 during the year ended June 30, 2019, were allocated to UMSA from the Morsani College of Medicine for its centralized programs and overhead services utilized by UMSA.

Convenience accounts have been established as a mechanism for the Company's clinical departments to fund certain components of their operations that are incurred initially by the University. These obligations are paid by the University on behalf of the clinical departments as a matter of convenience. These amounts are ultimately reimbursed to the University by the Company through the funding of the convenience accounts. During the year, ended June 30, 2019, convenience account funding for salary grants and other operating expenses totaled approximately $58,946,000. As of June 30, 2019, the year-end reconciliation of these accounts identified departments with excess cash balances, as well as those in a deficit position. The net excess cash balance of approximately $2,429,000 is included in Due from the University of South Florida on the accompanying statement of net position as of June 30, 2019.

The clinical component of physician salaries and certain benefits is paid through ASF. The Company has been designated as the agent for this account by the University. Consequently, funding for this account is provided by the Company on a monthly basis. During the year ended June 30, 2019, the Company transferred approximately $107,765,000 respectively, to ASF for salaries and other related expenses.

The Company is party to an agreement with the University and USF Health Professions Conferencing Corporation (HPCC) to provide human resources and payroll processing support services to HPCC. The Company is to be reimbursed by HPCC for certain costs related to payments made by the Company for payroll, leases, and other administrative support services. As of June 30, 2019, the Company has recorded the amount to be reimbursed of approximately $336,000, respectively as due from HPCC on the accompanying statement of net position. During the year ended June 30, 2019, the Company paid approximately $1,072,000 in payroll costs that will not be reimbursed by HPCC which is included in operating expenses on the accompanying statement of revenues, expenses and changes in net position.

On January 30, 2017, UMSA entered into a two year promissory note with University of South Florida Health Services Support Organization, Inc. (HSSO) for the purpose of making the investment in the Tampa Bay Health Alliance. HSSO is a direct support organization of the University of South Florida and is an affiliate of UMSA, given this common control. According to the terms of the note, the repayment date commences on a future date, which is initiated upon the delivery of written notice by UMSA to HSSO. As of June 30, 2019, there has been no correspondence provided to HSSO regarding the initial due date.

The borrowing rate, as defined in the agreement, is equal to the Wall Street Journal prime rate, at the date of the note agreement, 3.75%. Further, the rate will be adjusted annually on December 31 using the same financial instrument to determine the rate. Interest on the note is set to begin on the beginning of the repayment period which is a two year period commencing upon notice to HSSO. As of June 30, 2019, no correspondence has been provided to HSSO and as such, no interest has accrued.

HSSO has been given the option to prepay for any or all of the note prior to the payment due date. As of June 30, 2019, HSSO has not repaid any portion of the promissory note, which has a principal balance of $317,612.

Note H – Capital Leases

Capital lease activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
	$	$	$	$	$
Capital lease obligations	1,263,880	106,180	(543,159)	826,901	396,356

Minimum future lease payments under capital leases as of June 30, 2019, follow:

Years ended	Amount
2020	$ 415,614
2021	326,428
2022	99,997
2023	15,815
Total minimum payments	857,854
Less amounts representing interest	(30,953)
Present value of net minimum payments	826,901
Less - current maturities capital lease obligation	(396,356)
Long-term capital lease obligation	$ 430,545

As of June 30, 2019, total assets recorded under capital leases had a cost of approximately $2,167,000. For the year ended June 30, 2019, amortization of assets recorded under capital leases was approximately $431,000, and accumulated amortization was approximately $1,528,000 as of June 30, 2019.

Note I – Commitments and Contingencies

The Company has commitments for various agreements and operating leases for facilities, medical offices and equipment. Total rental expense incurred under the agreements and leases charged to operations during the year ended June 30, 2019 was approximately $4,897,000. Commitments for the Company's noncancelable operating leases with terms in excess of one year, excluding building leases with affiliates (see Note F) as of June 30, 2019 are as follows:

Years ended	Amount
2020	$ 2,027,900
2021	1,072,634
2022	276,055
2023	57,224
Total mimum lease payments	$ 3,433,813

The Company has a self-funded plan for its employees' health insurance program. The Company retains a liability of $200,000 for each individual for the policy year. The Company also retains an annual aggregate liability limit of $11,757,000 for fiscal year 2019. The Company accrues health insurance costs using estimates to approximate the liability for reported claims and claims incurred but not reported, as determined by an independent actuary. As of June 30, 2019, the Company accrued a liability of approximately $544,000 for claims incurred and claims incurred but not reported.

Note J – Regulatory Compliance

The Company has no knowledge of any intended or pending investigation by any Federal or State agency regarding the Company's claims for reimbursement for health services or any other matter of the Company's compliance with applicable laws and regulations.

Note K – Malpractice Insurance

The Morsani College of Medicine participates in a pooled insurance program that provides occurrence-based coverage up to certain limits. Excess malpractice liability coverage is also provided by the program over the occurrence-based coverage limits on a claims-made basis. The Morsani College of Medicine is statutorily provided sovereign immunity pursuant to Chapter 768.26 of the Florida Statutes. For the year ended June 30, 2019, the Company paid approximately $4,221,000, to the University of South Florida Self-Insurance Program on behalf of the Morsani College of Medicine.

Note L – Affiliation Agreement with Tampa General Hospital

An operating addendum to the affiliation agreement between the University, UMSA and Tampa General Hospital (TGH) became effective March 4, 2015 to facilitate the replacement of the University's Allscripts Touchworks EHR (Allscripts Software) with the Epic Systems Corporation EpicCare Ambulatory Electronic Medical Record (Epic Software). The initial term of the agreement ends on December 31, 2021. Under the operating addendum, TGH made and the University accepted TGH's donation of a sublicense for the Epic Software and related items and services as described in the operating addendum. The operating addendum calls for TGH to contribute up to 85% of the implementation costs and the University to be responsible for 15% of the implementation costs. The implementation costs consist of one time upfront fees and annual subscription fees to be paid quarterly beginning 60 days after the go-live date. The go-live date for implementation of the Epic Software was August 1, 2015.

UMSA is obligated to fund 15% of the annual subscription fee, which is projected to be $275,000 per year and is due 60 days after the go-live date in quarterly payments through December 31, 2021.

In March of 2016, the University, UMSA, and TGH entered into a third amendment to the operating addendum to the affiliation agreement (Third Amendment) between the University, UMSA, and TGH. Under the Third Amendment, TGH contributed, and UMSA received additional subsidized services and optimization services to optimize the use of the Epic Software. The Third Amendment calls for the University to pay to TGH approximately $228,000 which represents 15% of TGH's estimated costs for furnishing the optimization services. UMSA is making these payments on behalf of the University.

In May of 2018, the University, UMSA, and TGH entered into a fourth amendment to the operating addendum to the affiliation agreement (Fourth Amendment) between the University, UMSA, and TGH. Under the Fourth Amendment, TGH contributed, and UMSA accepted, TGH's donation of a sublicense for the EPIC Clinical and Professional Billings Component (EPIC PB) and related services as described in the Fourth Amendment. EPIC PB replaced the Company's current billing software with a go-live date of July 1, 2019. The Fourth Amendment calls for TGH to contribute up to 85% of the implementation costs and UMSA will be responsible for 15% of the implementation costs. In the event UMSA does not meet certain usage criteria as set forth in the Fourth Amendment, UMSA is obligated to reimburse TGH for the 85% of implementation costs contributed.

UMSA is obligated to fund 15% of the annual subscription fee, which is projected to be $31,500 per year and is due 60 days after the go-live date in quarterly payments through December 31, 2021.

The contributed use of the software and related costs incurred by TGH have not been reflected in the accompanying financial statements.

Note M– Retirement Plans

The Company maintains a defined contribution tax-deferred 403(b) retirement plan (the Plan) that covers substantially all eligible personnel upon completion of one year of service. New employees retain their vesting status for previous service rendered in affiliated organizations.

Under the Plan, the Company contributes at an approved rate of each eligible individual's total compensation. Contribution expense under the Plan amounted to approximately $1,869,000 for the year ended June 30, 2019 and is included in faculty and staff salary support in the accompanying statement of revenue, expenses and changes in net position.

The Company also maintains a voluntary tax-deferred 403(b) plan. Under this plan, all personnel may make voluntary contributions through the purchase of individual annuity contracts.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
University Medical Service Association, Inc. and
University of South Florida Medical Services Support Corporation

We have audited, 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, the financial statements of University Medical Service Association, Inc. ("UMSA") and University of South Florida Medical Service Support Corporation ("MSSC") (collectively, the "Company"), (a component unit of the University of South Florida), as of and for the year ended June 30, 2019, and have issued our report thereon dated on October 14, 2019.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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 Company's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Company's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters
As part of obtaining reasonable assurance about whether the Company's financial statements are free from 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*.

Intended purpose
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Tampa, Florida
October 14, 2019