



AR = Accounts Receivable (Patient)  
NPSR = Net Patient Service Revenue (includes AR)

This document contains 27 derivations of the word “estimate”

Page 3 (x1) Appropriate  
Page 10 (x2) Depreciation  
Page 11 (x5) Impairment, and certain costs  
Page 13 (x3) Actual results could differ  
Page 15 (x1) NPSR (includes AR)  
Page 16 (x1) NPSR  
Page 17 (x2) Medicare cost reports  
Page 18 (x1) Charity care  
Page 21 (x2) Fair value of assets  
Page 25 (x1) Construction in progress  
Page 27 (x1) Retirement Plan - Termination  
Page 29 (x1) Retirement Plan - Interest Rate  
Page 31 (x1) Plan Assets - Expected long-term rate of return  
Page 34 (x1) Post-retirement benefits  
Page 35 (x4) Related to Medicare, and Medicaid

I wonder which part(s) of this annual CPA audit report are REAL (not estimated)?

## **FLORIDA HEALTH SCIENCES CENTER, INC.**

Consolidated Financial Statements and Reports as Required by  
the Uniform Guidance and Chapter 10.650, Rules of the Auditor General

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

[https://flauditor.gov/pages/nonprofit\\_forprofit%20pages/florida%20health%20sciences%20center/htm](https://flauditor.gov/pages/nonprofit_forprofit%20pages/florida%20health%20sciences%20center/htm)

For missing report(s), send an end email to the VERY helpful people at this email address:  
flaudgen\_localgovt@aud.state.fl.us

## FLORIDA HEALTH SCIENCES CENTER, INC.

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## Independent Auditors' Report

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Florida Health Sciences Center, Inc. (the Center), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### *Auditors' Responsibility*

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 auditors' 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 entity'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 entity'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 opinions.

### *Opinions*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Florida Health Sciences Center, Inc. as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in Note 1(t) to the consolidated financial statements, the Center adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014 09, *Revenue from Contracts with Customers* (ASC 606) and ASU 2016 14, *Presentation of Financial Statements of Not for Profit Entities* (ASC 958) during 2019, as amended. Our opinion is not modified with respect to this matter.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019 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 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 Center'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 Center's internal control over financial reporting and compliance.

KPMG LLP

December 18, 2019

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

September 30, 2019 and 2018

<b>Assets</b>	<b>2019</b>	<b>2018</b>
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	\$ 42,881,910	97,752,986
Short-term investments	5,137,497	5,137,454
Current portion of assets limited as to use	4,638,313	4,610,190
Patient accounts receivable	170,078,910	144,930,153
Inventories	28,096,323	25,906,128
Prepaid expenses and other current assets	91,261,482	66,262,560
	<hr/>	<hr/>
Total current assets	342,094,435	344,599,471
Assets limited as to use, less current portion	859,746,581	787,128,917
Property and equipment, net	540,756,358	530,468,572
Investments in joint ventures	21,462,468	19,053,934
Other assets	23,595,548	35,045,619
	<hr/>	<hr/>
Total assets	\$ <u>1,787,655,390</u>	<u>1,716,296,513</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 250,417,628	231,919,496
Current installments of long-term debt	8,322,655	8,102,735
Current installment of obligations under capital lease	1,934,798	1,174,537
Estimated third-party payor settlements	46,507,322	36,871,840
	<hr/>	<hr/>
Total current liabilities	307,182,403	278,068,608
Long-term debt, excluding current installments	349,401,180	357,560,745
Obligations under capital lease, excluding current installments	19,676,998	19,856,319
Other liabilities	66,841,642	73,987,149
	<hr/>	<hr/>
Total liabilities	743,102,223	729,472,821
Net assets:		
Without donor restrictions	1,024,714,427	968,408,667
With donor restrictions	19,838,740	18,415,025
	<hr/>	<hr/>
Total net assets	1,044,553,167	986,823,692
	<hr/>	<hr/>
Total liabilities and net assets	\$ <u>1,787,655,390</u>	<u>1,716,296,513</u>

See accompanying notes to consolidated financial statements.

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 1,345,855,745	1,235,980,134
Disproportionate share distributions	6,199,803	7,828,194
Other revenue	95,131,384	81,869,709
	<u>1,447,186,932</u>	<u>1,325,678,037</u>
Expenses:		
Salaries and benefits	667,981,507	609,752,445
Medical supplies	325,934,536	303,717,624
Other	215,143,126	194,630,114
Purchased services	148,026,989	124,695,710
Depreciation and amortization	63,895,223	64,277,637
Interest	12,720,954	12,851,412
	<u>1,433,702,335</u>	<u>1,309,924,942</u>
Operating income	<u>13,484,597</u>	<u>15,753,095</u>
Nonoperating gains (losses):		
Investment return, net	45,667,832	43,461,609
Gain from pension curtailment	—	11,327,598
Other	32,665	(4,173,291)
	<u>45,700,497</u>	<u>50,615,916</u>
Revenues, gains, and other support over expenses	\$ <u>59,185,094</u>	<u>66,369,011</u>

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Revenues, gains, and other support over expenses	\$ 59,185,094	66,369,011
Net assets released from restrictions used for property and equipment and other property transfers	1,268,070	3,294,200
Minority Interest in the Surgery Center	1,178,123	25,000
Pension-related changes other than net periodic pension cost	<u>(5,325,527)</u>	<u>8,564,140</u>
Increase in net assets without donor restrictions	<u>56,305,760</u>	<u>78,252,351</u>
Net assets with donor restrictions:		
Net assets released from restrictions:		
Used for property and equipment and other property transfers	(1,268,070)	(3,294,200)
Used for operations	(1,616,482)	(1,587,595)
Contributions	2,201,870	4,165,234
Increase in beneficial interest in net assets of Tampa General Hospital Foundation	<u>2,106,397</u>	<u>1,536,394</u>
Increase in net assets with donor restrictions	<u>1,423,715</u>	<u>819,833</u>
Increase in net assets	57,729,475	79,072,184
Net assets, beginning of year	<u>986,823,692</u>	<u>907,751,508</u>
Net assets, end of year	<u>\$ 1,044,553,167</u>	<u>986,823,692</u>

See accompanying notes to consolidated financial statements.

Note: In the most recent previous audit report, this value is the total of  
 “Provision for bad debts” A positive value \$ 65,612,092 +  
 “Patient accounts receivable” A negative value \$-83,828,721 = \$-18,216,629

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase in net assets	\$ 57,729,475	79,072,184
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	63,895,223	64,277,637
Amortization of debt issue costs	163,091	164,530
Amortization of bond premiums	(669,735)	(679,102)
Restricted contributions	(1,228,754)	(3,330,349)
Unrealized gains, net	(23,289,314)	(14,085,740)
Realized gains, net	(3,287,809)	(13,198,080)
(Gain) loss on joint ventures	(1,161,484)	2,217,621
Gain from pension curtailment	—	(11,327,598)
Pension-related changes other than net periodic pension cost	5,325,527	(8,564,140)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(25,148,757)	(18,216,629)
Inventories	(2,190,195)	855,989
Prepaid expenses and other assets	(19,627,859)	(7,008,143)
Accounts payable and accrued expenses	17,043,872	4,282,529
Estimated third-party payor settlements	9,635,482	(22,055,927)
Other liabilities	(7,145,507)	(351,147)
Net cash provided by operating activities	<u>70,043,256</u>	<u>52,053,635</u>
Cash flows from investing activities:		
Purchases of property and equipment	(71,975,268)	(50,032,931)
Purchases of assets limited as to use	(354,623,766)	(1,153,693,672)
Proceeds from sales of assets limited as to use	308,555,102	1,139,192,427
Increase in short-term investments, net	(43)	(5,038,424)
Investment in joint venture	(1,247,050)	(9,100,058)
Net cash used in investing activities	<u>(119,291,025)</u>	<u>(78,672,658)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	1,228,754	3,330,349
Payments on long-term debt	(7,433,001)	(7,231,899)
Proceeds from capital leases	3,157,911	—
Payments on capital lease obligations	(2,576,971)	(1,046,986)
Net cash used in financing activities	<u>(5,623,307)</u>	<u>(4,948,536)</u>
Decrease in cash and cash equivalents	(54,871,076)	(31,567,559)
Cash and cash equivalents at beginning of year	97,752,986	129,320,545
Cash and cash equivalents at end of year	<u>\$ 42,881,910</u>	<u>97,752,986</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 12,762,490	12,885,866
Accounts payable for property and equipment purchases	3,720,051	2,265,791

See accompanying notes to consolidated financial statements.



## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### (1) Summary of Significant Accounting Policies

#### (a) Organization and Basis of Presentation

Florida Health Sciences Center, Inc. and Subsidiaries (the Center), located in the Tampa Bay region of Florida, is a not-for-profit entity incorporated during 1997 to meet the healthcare 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. 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. Tampa General Hospital Foundation (the Foundation) is a related not-for-profit organization, which supports the Center.

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 net assets with restrictions 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 the years ended September 30, 2019 and 2018, net assets of approximately \$577,044 and \$757,000, respectively, were released from restriction, relating to the annual depreciation expense associated with the leased assets.

The Center operates a number of wholly own subsidiaries which include, Florida Health Sciences Center, Ltd. (the Captive) which provides professional and general liability coverage to the Center, Tampa General Medical Group, Inc. (TGMG, Inc.), which operates a network of physician practices, FHSC Real Property Holding Company, LLC (FHSC Real Estate), TGH Architecture & Engineering, LLC (TGH Architecture), for the purpose of holding architectural licenses, TGHHC Inc. (dba House of Coffee Tampa), for the purpose of operating a Starbucks Restaurant, TGH Ambulatory Services Company, Inc. (TGH Ambulatory), which established wholly owned subsidiaries as follows: TGH Staffing, LLC; The Surgery Center at TGH Brandon Healthplex, LLC (ASC); and TGH Brandon Healthplex Pharmacy, LLC. Pursuant to a Subscription Agreement in 2017, the ASC sold a 1% membership interest to an affiliated physician. In 2019, that membership interest was repurchased by the Center pursuant to a planned restructuring and a 45% membership interest in the ASC was subsequently purchased by a surgical investor group.

The consolidated financial statements of the Center include the operations of all entities controlled, either directly or indirectly, by the Center, which include the Hospital, the Captive, TGMG, Inc., FHSC Real Estate, TGH Architecture, TGHHC Inc., TGH Ambulatory, and the Center's beneficial interest in the net assets of the Foundation. Investments in entities where the Center holds a noncontrolling interest are recorded under the equity method of accounting. All significant intercompany transactions among those entities have been eliminated during consolidation. The consolidated financial statements for the Center have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(b) Mission Statement**

The Hospital is committed to providing area residents with excellent and compassionate health care ranging from the simplest to the most complex medical services.

**(c) Cash and Cash Equivalents**

The Center considers all highly liquid investments with an original maturity of three months or less, when purchased, 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, over which the Center 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.

Investment return includes realized and unrealized gains and losses on investments, interest income, and dividends and are included in revenues, gains, and other support over expenses in the consolidated statements of operations and changes in net assets without donor restrictions, 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 net assets with donor restrictions.

**(f) Property and Equipment**

Property and equipment, transferred from the Authority on October 1, 1997, was recorded at fair 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 improvements 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 expense 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. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(g) Debt Issue Costs**

Debt issuance costs of approximately \$3,123,000 are included as a deduction from the carrying amount of long-term debt at September 30, 2019 and 2018. These amounts include costs capitalized in connection with the issuance of the Series 2012A bonds and 2013 and 2015 bank loans. Debt issuance costs are amortized using the effective interest method. Amortization of approximately \$163,000 and \$165,000 for the years ended September 30, 2019 and 2018, respectively, is included as a component of interest expense. The debt issuance costs, net of accumulated amortization, are approximately \$2,082,000 and \$2,245,000 as of September 30, 2019 and 2018, respectively.

**(h) 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 premiums of approximately \$670,000 and \$679,000 for the years ended September 30, 2019 and 2018, respectively, is included as a component of interest expense. Bond premiums of approximately \$7,991,000 and \$8,661,000 are included with the related debt in the consolidated balance sheets as of September 30, 2019 and 2018, respectively.

**(i) 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. There were no impairment losses recorded during the years ended September 30, 2019 and 2018. 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 whether an impairment loss exists. The impairment loss, if any, would be determined by comparing the historical carrying value of the asset to its estimated fair value.

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.

**(j) 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 costs for both reported claims and claims incurred but not reported, based on evaluation of pending claims and past experience.

**(k) Net Assets with Donor Restrictions**

Net assets with donor restrictions are those whose use by the Center have been limited by donors to a specific period or purpose. The majority of net assets with donor restrictions 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. The remainder of net assets with donor restrictions are to be maintained by the Center in perpetuity, the income from which is expendable to support the Center's operations.

## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### **(l) Beneficial Interest in Tampa General Hospital Foundation**

The Center recognizes its beneficial interest in the net assets of the Foundation. This interest is adjusted to reflect its share of change in the Foundation's net assets. The Foundation complies with the provisions of the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA).

### **(m) Nonoperating Gains and Losses and Revenues, Gains, and Other Support over Expenses**

Activities deemed by the Center to be a provision of healthcare services are reported as revenues, gains and other support, and expenses. Other activities that are peripheral to providing healthcare services are reported as nonoperating gains and losses, net.

The consolidated statements of operations and changes in net assets include revenues, gains, and other support over expenses. Changes in net assets without donor restrictions that are excluded from revenues, gains, and other support over expenses are consistent with industry practice. Other changes in net assets without donor restrictions consist primarily of pension liability adjustments and contributions of long-lived assets, if any.

### **(n) 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. 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.

### **(o) Charity Care**

The Center provides care to patients who meet certain criteria by reference to established policy threshold. 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 service revenue.

### **(p) Income Taxes**

The Center, except for TGHOC Inc. and the companies established as wholly owned subsidiaries under TGH Ambulatory, 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 the Captive.

TGHOC, Inc. and the companies established as wholly owned subsidiaries under TGH Ambulatory are for-profit corporations and are subject to federal and state income taxes. Taxes are recognized as necessary in the accompanying consolidated financial statements. Associated tax accounting impacts are not material to the consolidated financial statements.

## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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

U.S. generally accepted accounting principles require management to evaluate tax positions taken by the Center and recognize a tax liability (or asset) if the Center has taken an uncertain position that more likely than not would not be sustainable upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Center, and has concluded that as of September 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

#### **(q) Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

#### **(r) Going Concern**

In accordance with Accounting Standards Updated (ASU) 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, management has assessed the Center's ability to continue as a going concern for one year after the date that the financial statements are issued and determined that no further disclosure is required.

#### **(s) Reclassification**

Certain reclassifications are reflected in the 2018 consolidated financial statements to conform to the 2019 consolidated financial statement presentation.

#### **(t) Adoption of New Accounting Standard**

Effective October 1, 2018, the Center adopted Financial Accounting Standards Board (FASB) ASU 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606) using a full retrospective method. The standard presents a comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principal of the model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The Center's most significant impact of adopting the new standard is to the presentation of the consolidated statements of operations and changes in net assets related to uninsured and underinsured patients. In accordance with the new standard, the Center now recognizes the majority of its previously reported provision for bad debts as a direct reduction to net patient service revenue as an implicit price concession rather than a separate line item to arrive at a net patient service revenue. For the years ended September 30, 2019 and 2018, the Center recorded approximately \$91,157,000 and \$65,612,000, respectively, of implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debts prior to the adoption of

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

ASC Topic 606. For the years ended September 30, 2019, and 2018, the Center recorded approximately \$107,718,000 and \$190,751,000, respectively, as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectable accounts prior to the adoption of ASC Topic 606. The Center has also eliminated the related presentation of the allowance for uncollectable accounts on the consolidated balance sheets and reclassified certain 2018 balances within the consolidated statement of operations and changes in net assets in accordance with ASC Topic 606. Other than these changes in presentation, the adoption of ASC Topic 606 did not have a material impact on the consolidated balance sheets or consolidated statements of operations and changes in net assets for the years ended September 30, 2019 and 2018. The Center's revenue recognition and accounts receivable policies are more fully described in note 1(u).

Effective October 1, 2018, the Center adopted FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASC Topic 958) (ASU 2016-14) retrospectively for all periods presented. The standard presents changes to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. Adoption of ASU 2016-14 resulted in the following adjustments as of September 30, 2018:

	<u>2018</u>
Net assets before adoption of ASU 2016-14:	
Unrestricted net assets	\$ 968,408,667
Temporarily restricted net assets	17,495,831
Permanently restricted net assets	<u>919,194</u>
Total net assets before adoption of ASU 2016-14	\$ <u>986,823,692</u>
Net assets after adoption of ASU 2016-14:	
Without donor restrictions:	
Previous classification – unrestricted net assets	\$ <u>968,408,667</u>
Total without donor restrictions	<u>968,408,667</u>
With donor restrictions:	
Previous classification – temporarily restricted net assets	17,495,831
Previous classification – permanently restricted net assets	<u>919,194</u>
Total with donor restrictions	<u>18,415,025</u>
Total net assets after adoption of ASU 2016-14	\$ <u>986,823,692</u>

The standard requires the presentation of expenses by functional and natural classifications to provide insight into resource utilization and also requires that investment returns be presented net of investment expenses. As a result of the adoption of ASU 2016-14, the Center reclassified investment expenses of \$2,184,000 reported as of September 30, 2018 from other expenses to investment return, net. Before the adoption of ASU 2016-14, other expenses as of September 30, 2018 were \$321,510,000 and after the adoption were \$319,326,000. Before the adoption of ASU 2016-14, investment return, net as of September 30, 2018 was \$45,646,000 and after the adoption was \$43,462,000. As a result of adoption of ASU 2016-14, in footnote 5, the Center reclassified investment

## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

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expenses of \$2,184,000 as of September 30, 2018 from other expenses to unrealized gains. As a result of the reclassification, unrealized gains of \$17,081,000 as of September 30, 2018 were restated to \$14,897,000. Expenses by functional and natural classifications are presented in footnote 15. Liquidity and availability of financial assets are discussed in footnote 16. Other than these changes in presentation, the adoption of ASC Topic 958 did not have a material impact on the consolidated balance sheets, consolidated statements of operations and changes in net assets, for the years ended September 30, 2019 and 2018.

#### **(u) Net Patient Services Revenue**

In accordance with FASB ASU 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606), the Center's revenues are derived from contracts with patients in which the performance obligation is to provide healthcare services to patients and are reported at the amount expected to be received in exchange for providing patient care. Consideration for these amounts are due from patients, third-party payors (such as managed care, Medicare, Medicaid) and others, and they include variable consideration for retroactive revenue adjustments. The Center identifies performance obligations based on the nature of the services provided and recognizes the revenue as the performance obligations are satisfied. Generally, the Center bills patients and third-party payors several days after the services are performed or shortly after discharge. Inpatient acute care services satisfied over time, generally from admission to time of discharge, are recognized based on actual charges incurred in relation to the total expected (or actual) charges, which depicts the transfer of healthcare services over the duration of the performance obligation. Revenue for performance obligations satisfied at a point in time, which is generally relating to patients receiving outpatient services, is recognized when services are provided, and the Center does not believe the patient requires additional services.

Because unsatisfied or partially unsatisfied performance obligations relate to contracts with a duration of less than one year, the Center has elected to apply the optional exemption provided by ASC Topic 606-10-50-14 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the recognition period. The performance obligations are generally satisfied after discharge which typically occurs within days or weeks of the end of the reporting period. The transaction price is determined based on gross charges for services provided, reduced by price concessions related to third party contractual arrangements, discounts provided to patients, and other implicit price concessions.

The Center is using the portfolio approach practical expedient in ASC Topic 606 for contracts related to net patient service revenue. The Center determines the estimates of contractual adjustments and discounts based on contractual agreements, the Center's charity care policy, as well as historical experience and other collection indicators. The Center accounts for the contracts within each portfolio as a collective group, rather than individual contracts. The portfolios consist of major payor classes for inpatient and outpatient revenue. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

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Generally, patients covered by third-party payors are responsible for related deductibles and coinsurance, which is referred to as the patient portion. Subsequent adjustments to the transaction price that are determined to be the result of an adverse change in patient or payor's ability to pay, for example, bankruptcy, are recognized as bad debt expense. With the adoption of ASC Topic 606, bad debt expense is included within other expenses in the consolidated statements of operations and changes in net assets, rather than as a deduction from patient service revenue. Bad debt expense for the years ended September 30, 2019, and 2018, was not considered material to the Center.

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. The Center recognizes net patient service revenue associated with services provided to patients who have third-party (managed care, Medicare, Medicaid, other) payor coverage on the basis of contractual rates for the services rendered. For under-insured and uninsured patients who do not qualify for charity care, the Center recognizes revenue on the basis of individualized arrangements based on financial need and medical necessity. These arrangements do not take into account age, gender, race, social or immigrant status, sexual orientation or religious affiliation. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant implicit price concession related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances, discounts, and implicit price concessions recognized for the years ended September 30, 2019 and 2018 from the major payor sources are as follows:

	<u>2019</u>	<u>2018</u>
Managed care	\$ 595,069,045	545,795,262
Medicare	471,232,640	433,564,833
Medicaid	222,970,644	208,827,014
Other	50,172,136	41,150,718
Self-pay	<u>6,411,280</u>	<u>6,642,307</u>
	<u>\$ 1,345,855,745</u>	<u>1,235,980,134</u>

**(2) Net Patient Service 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 52% of the Center's net patient service revenue for the years ended September 30, 2019 and September 30, 2018. 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. Commercial insurers, which operate as Medicare Advantage Plans, generally follow the traditional Medicare MSDRG payment methodology. Defined organ acquisition and graduate medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement



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methodology, subject to certain limits and regulatory guidelines. The majority of outpatient services are paid on prospectively determined rates per occurrence based on the ambulatory payment classification (APC) assigned to the service provided. The Center also receives a disproportionate share payment from Medicare included in its MSDRG payment, based on its level of Medicaid patient volume and low-income Medicare beneficiaries.

The Center receives a final settlement for cost reimbursable and pass-through items after submission of its annual cost reports and audits thereof by the Medicare fiscal intermediary. A Medicare final settlement has been determined for all years up to and including 2008. Differences between estimated provisions for cost report settlements and final settlement 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 \$2,750,000 and \$8,502,000 for the years ended September 30, 2019 and September 30, 2018, respectively.

#### **(b) Medicaid**

In 2014, the Florida Legislature mandated that the majority of Florida Medicaid beneficiaries be transitioned to Statewide Medicaid Managed Care (SMMC). Because certain populations are carved out of SMMC, the Center has seen approximately three-fourths of its Medicaid reimbursement transition to these plans. The Center continued to be paid for outpatient services on a cost-based rate that reimburses per occasion of service through June 30, 2017. SMMC will utilize the same payment methodology as traditional Medicaid for reimbursement of inpatient and is transitioning to the same methodology for outpatient services. Effective July 1, 2017 the Agency for Health Care Administration (AHCA) implemented a new outpatient prospective payment methodology utilizing Enhanced Ambulatory Payment Groups (EAPGs), which are an outpatient visit-based patient classification available for all outpatient services and settings.

#### **(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). Under-insured 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Traditional charity care	\$ 52,173,000	52,790,000
Unreimbursed Medicaid and Medicaid HMO	72,096,000	58,487,000
Unreimbursed Hillsborough County Health Plan	<u>19,924,000</u>	<u>21,446,000</u>
	<u>\$ 144,193,000</u>	<u>132,723,000</u>
As a percentage of operating expenses	10 %	10 %

**(4) Concentration of Credit Risk of Net Accounts Receivable**

The Center grants credit without collateral to its patients, most of whom 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>2019</u>	<u>2018</u>
Managed care	64%	56%
Medicare	15	23
Medicaid	3	3
Other	<u>18</u>	<u>18</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.

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**(5) Assets Limited as to Use and Short-Term Investments**

Assets limited as to use as of September 30, 2019 and 2018, at fair value, are as follows:

	<u>2019</u>	<u>2018</u>
Internally designated for capital improvements and employee health benefits:		
Cash and cash equivalents	\$ 32,726,199	33,127,671
Equities securities:		
Domestic stocks	100,770,720	96,308,824
Global stocks	47,887,609	39,815,151
Fixed income securities:		
Government obligations	213,476,987	182,979,336
Corporate bonds	260,593,461	222,360,695
Equity index fund	<u>144,572,199</u>	<u>149,082,723</u>
Total internally designated for capital improvements and employee health benefits	<u>800,027,175</u>	<u>723,674,400</u>
Beneficial interest in Tampa General Hospital Foundation	14,106,819	12,000,422
Held by trustee under malpractice self-insurance arrangement:		
Cash and cash equivalents	13,475,655	14,761,538
Corporate bonds	7,121,739	10,414,851
Government obligations	5,636,191	3,522,643
Municipal bonds	5,379,933	9,268,171
Mutual funds	<u>18,637,157</u>	<u>18,096,984</u>
Total held by trustee under malpractice self-insurance arrangement	50,250,675	56,064,187
Held by trustee under bond indentures:		
Cash and cash equivalents	<u>225</u>	<u>98</u>
Assets limited to use	864,384,894	791,739,107
Amount required to meet current obligations	<u>(4,638,313)</u>	<u>(4,610,190)</u>
Assets limited to use, less current portion	\$ <u><u>859,746,581</u></u>	<u><u>787,128,917</u></u>

Short-term investments, stated at fair value, consisted of cash and cash equivalents as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 5,137,497	5,137,454

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Investment income and gains and losses on assets limited as to use, cash equivalents and other investments comprise the following for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Other revenue:		
Interest income	\$ 1,413,645	1,477,624
Net realized gains on sale of investments	2,121,445	2,330,518
Unrealized losses on trading investments, net	<u>(1,973,903)</u>	<u>(810,849)</u>
Total	<u>1,561,187</u>	<u>2,997,293</u>
Nonoperating gains:		
Interest income and dividends	19,238,251	17,697,458
Net realized gains on sale of investments	1,166,364	10,867,562
Unrealized gains on trading investments, net	<u>25,263,217</u>	<u>14,896,589</u>
Total	<u>45,667,832</u>	<u>43,461,609</u>
Total investment return	<u>\$ 47,229,019</u>	<u>46,458,902</u>

**(6) Fair Value Measurements**

FASB ASC Topic 820, *Fair Value Measurement*, 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. FASB ASC 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.

Following is a description of the valuation methodologies used for significant assets measured at fair value at September 30, 2019 and 2018:

*Cash and cash equivalents:* The carrying amounts reported in the consolidated 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 matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

The following tables summarize the fair values of the Center's significant financial assets and liabilities as of September 30, 2019 and 2018:

	September 30, 2019	Fair value measurement at reporting date	
		Level 1	Level 2
Cash and cash equivalents	\$ 42,881,910	42,881,910	—
Short-term investments:			
Cash and cash equivalents	5,137,497	5,137,497	—
Assets limited to use:			
Cash and cash equivalents	46,202,079	46,202,079	—
Equity securities:			
Domestic stocks	100,770,720	100,770,720	—
Global stocks	47,887,609	47,887,609	—
Mutual funds	18,637,157	18,637,157	—
Fixed income securities:			
Government obligations	219,113,178	219,113,178	—
Corporate bonds	267,715,200	—	267,715,200
Municipal bonds	5,379,933	—	5,379,933
Equity index fund	144,572,199	—	144,572,199
Beneficial interest in Tampa General Hospital Foundation	14,106,819	—	14,106,819
Total assets limited to use	864,384,894	432,610,743	431,774,151
Total	\$ 912,404,301	480,630,150	431,774,151

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	September 30, 2018	Fair value measurement at reporting date	
		Level 1	Level 2
Cash and cash equivalents	\$ 97,752,986	97,752,986	—
Short-term investments:			
Cash and cash equivalents	5,137,454	5,137,454	—
Assets limited to use:			
Cash and cash equivalents	47,889,307	47,889,307	—
Equity securities:			
Domestic stocks	96,308,824	96,308,824	—
Global stocks	39,815,151	39,815,151	—
Mutual funds	18,096,984	18,096,984	—
Fixed income securities:			
Government obligations	186,501,979	186,501,979	—
Corporate bonds	232,775,546	—	232,775,546
Municipal bonds	9,268,171	—	9,268,171
Equity index fund	149,082,723	—	149,082,723
Beneficial interest in Tampa General Hospital Foundation	12,000,422	—	12,000,422
Total assets limited to use	<u>791,739,107</u>	<u>388,612,245</u>	<u>403,126,862</u>
Total	<u>\$ 894,629,547</u>	<u>491,502,685</u>	<u>403,126,862</u>

The Center's policy is to recognize transfers between levels of the fair value hierarchy at the end of the year. There were no transfers of financial assets or liabilities between Level 1 and Level 2 during the years ended September 30, 2019 and 2018. There were no investments classified as Level 3 during the years ended September 30, 2019 and 2018.

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**(7) Long-Term Debt**

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
Series 2012A Bonds, net of unamortized premium of \$7,990,903 and \$8,660,638 as of September 30, 2019 and 2018, respectively, maturing in various amounts through October 1, 2043, with stated rates of 3% to 5%	\$ 161,705,903	163,450,639
2013 Bank Loan, maturing in various amounts through October 1, 2024 at a stated interest rate of 2.47%	21,659,000	25,725,000
2015 Bank Loan, maturing in various amounts through October 1, 2041 at a stated interest rate of 2.52%	<u>176,441,400</u>	<u>178,733,400</u>
Total long-term debt	359,806,303	367,909,039
Less current installments	(8,322,655)	(8,102,735)
Less debt issuance costs	<u>(2,082,468)</u>	<u>(2,245,559)</u>
Long-term debt, excluding current installments	<u><u>349,401,180</u></u>	<u><u>357,560,745</u></u>

On February 28, 2013, the Hillsborough County Industrial Development Authority issued \$166,490,000 aggregate principle amounts of tax-exempt Hospital Revenue Refunding Bonds (2012A Bonds). A portion of the proceeds of the 2012A Bonds was used to purchase and redeem all of the Hospital's outstanding 2003B Bonds and a portion of the Hospital's outstanding Series 2003A Bonds. The remaining proceeds of the 2012A Bonds were utilized for the expansion, improvement and further equipping of the healthcare facilities. The 2012A 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.

On September 19, 2013, the Hillsborough County Industrial Development Authority, the Center, and PNC Bank N.A. entered into a Loan Agreement (2013 Bank Loan) in the amount of \$37,020,000 to provide for the refunding of the remaining outstanding principal of the Series 2003A Bonds. The 2013 Bank Loan contains various covenants, including, but not limited to, the maintenance of a minimum debt service coverage ratio.

On December 11, 2015, the Hillsborough County Industrial Development Authority, Florida Health Sciences Center, Inc. and TD Bank N.A. entered into a Loan Agreement (2015 Bank Loan) in the amount of \$183,387,500. To provide for the refunding of a portion of the outstanding principal of the Series 2006 Bonds. The 2015 Bank Loan contains various covenants, including but not limited to, the maintenance of a minimum debt service coverage ratio.

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The 2012A 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 2012A Bonds range from 3% to 5% with an effective rate of 4.39% at September 30, 2019 and maturities through October 1, 2043. Except for \$21,180,000 of serial bonds maturing prior to October 1, 2028, the 2012A Bonds are subject to mandatory redemption by the Center beginning October 1, 2028 at par plus accrued interest. Stated interest rates on the 2013 Bank Loan are set at 2.57% with an effective rate of 2.65% at September 30, 2019, and maturities to October 1, 2024. Stated interest rates on the 2015 Bank Loan are set at 2.52% with an effective rate of 2.56% at September 30, 2019 and maturities to October 1, 2041.

Scheduled maturities of long-term debt as of September 30, 2019 are as follows:

Year ending September 30:	
2020	\$ 7,661,300
2021	7,879,400
2022	8,111,600
2023	8,235,800
2024	8,151,300
Thereafter	<u>311,776,000</u>
Long-term debt, excluding unamortized premiums	351,815,400
Unamortized premium	<u>7,990,903</u>
Long-term debt, including unamortized premiums	<u>\$ 359,806,303</u>



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**(8) Property and Equipment**

Property and equipment consist of the following as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 59,067,227	59,057,227
Land improvements, buildings, and fixed equipment	564,842,937	540,296,687
Major moveable equipment	487,730,785	451,471,871
Leasehold improvements	19,620,578	18,917,925
Capital leases	25,817,979	21,843,593
Vehicles	<u>1,845,212</u>	<u>1,837,612</u>
Total property and equipment	1,158,924,718	1,093,424,915
Accumulated depreciation and amortization	<u>(638,511,950)</u>	<u>(585,779,047)</u>
Total property and equipment less depreciation and amortization	520,412,768	507,645,868
Construction in progress	<u>20,343,590</u>	<u>22,822,704</u>
Property and equipment, net	\$ <u><u>540,756,358</u></u>	\$ <u><u>530,468,572</u></u>

Depreciation expense amounted to approximately \$63,142,000 and \$63,674,000 during the years ending September 30, 2019 and 2018, respectively. Approximately \$10,068,000 and \$13,171,000 of assets were removed from the consolidated balance sheets in 2019 and 2018, respectively, as these assets were no longer utilized by the Center.

As of September 30, 2019, the estimated cost to complete construction in progress is approximately \$70,922,000.

No interest was capitalized during the years ended September 30, 2019 and 2018.

**(9) Lease Obligations**

The Center is obligated under a capital lease for medical office space that expires in 15 years with five renewal options for 12 years each. The remaining capital leases are for medical equipment used throughout the Center. At September 30, 2019 and 2018, the gross amount of building and equipment and accumulated amortization recorded under capital leases are as follows:

	<u>2019</u>	<u>2018</u>
Building and equipment	\$ 25,817,981	22,660,070
Less accumulated amortization	<u>(4,206,185)</u>	<u>(1,629,214)</u>
	\$ <u><u>21,611,796</u></u>	\$ <u><u>21,030,856</u></u>

Amortization of assets held under capital leases is included with depreciation expense.

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The Center leases certain medical and other support equipment under operating leases. Rent expense under noncancelable operating leases was approximately \$19,210,799 and \$15,915,126 for the years ended September 30, 2019 and 2018, respectively, and is included in medical supplies and other expenses on the consolidated statements of operations and changes in net assets. Future minimum lease payments as of September 30, 2019 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending September 30:		
2020	\$ 1,914,952	12,548,948
2021	1,870,740	8,792,880
2022	1,382,734	5,411,830
2023	1,305,919	2,733,204
2024 and thereafter	<u>15,137,451</u>	<u>3,924,054</u>
Total minimum lease payments	21,611,796	\$ <u><u>33,410,916</u></u>
Less current installment of obligations under capital lease	<u>(1,934,798)</u>	
Obligations under capital leases, excluding current installment	\$ <u><u>19,676,998</u></u>	

**(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.

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 \$15 per month and the maximum is \$90 per month. Effective January 1, 2014, due to the introduction of employer matching in its 403b plan, the Center's board of trustees approved an amendment to reduce the contribution schedule.

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On October 31, 2017, the Board approved an amendment to the Plan to freeze benefit accruals and participation, effective January 1, 2018. No credit was accrued for service performed on or after January 1, 2018. In addition, a participant's final average compensation was frozen effective January 1, 2018. Each participant who was actively employed by the Center on December 31, 2017 was fully vested in his or her accrued benefit under the Plan. As a result of this freeze, the Center incurred a curtailment credit of approximately \$11,328,000 and settlement charge of \$1,000,000 during the year ended September 30, 2018.

On August 28, 2018, the Board approved an amendment to terminate the Plan, effective December 31, 2018. As a result of the termination, the Center recorded a deferred credit of \$1,300,000 to adjust the previously estimated settlement charge of \$1,000,000 during the year ended September 30, 2018. The credit was released during 2019. For the year ended September 30, 2019, a settlement charge of approximately \$138,000 was incurred.

The actuarially computed net periodic pension cost for the Center's Plan for the years ended September 30, 2019 and 2018 included the following components and reflects the impact of the contribution reduction:

	<u>2019</u>	<u>2018</u>
Service cost – benefits earned during the period	\$ —	2,482,332
Interest cost on projected benefit obligation	8,382,507	8,494,975
Expected return on plan assets	(6,784,328)	(17,126,413)
Net amortization of prior service cost and deferral of unrecognized (gains)	—	(164,191)
Net periodic pension cost	<u>\$ 1,598,179</u>	<u>(6,313,297)</u>

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The following table sets forth the Plan's funded status and amount recognized in other assets in the Center's consolidated balance sheets as of September 30, 2019 and 2018 (using a measurement date of September 30):

	<u>2019</u>	<u>2018</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 232,571,735	262,068,152
Service cost	—	2,482,332
Interest cost	8,382,507	8,494,975
Curtailment	—	507,257
Actuarial loss/(gain)	5,496,070	(22,367,005)
Benefits paid	(1,104,817)	(977,952)
Settlements	<u>(16,101,158)</u>	<u>(17,636,024)</u>
Projected benefit obligation at end of year	<u>229,244,337</u>	<u>232,571,735</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	260,704,362	264,084,065
Actual return on plan assets	6,190,393	15,234,273
Benefits paid	(1,104,817)	(977,952)
Settlements	<u>(16,101,158)</u>	<u>(17,636,024)</u>
Fair value of plan assets	<u>249,688,780</u>	<u>260,704,362</u>
Funded status and accrued benefit costs	\$ <u>20,444,443</u>	<u>28,132,627</u>

The accumulated benefit obligation for the Plan was approximately \$229,244,000 and \$232,572,000 as of September 30, 2019 and 2018, respectively.

Weighted average assumptions used to determine projected benefit obligations as of September 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	2.25 %	3.23%/3.81%
Projected rate of compensation increase	N/A	N/A

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.23%/3.81%	3.23%/3.81%
Projected rate of increase in compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	2.70 %	6.68 %

In consideration of the Plan termination effective December 31, 2018, the method for valuing liabilities for FASB ASC 715-30, *Compensation – Retirement Benefits (Topic 715)* accounting purposes was changed to a plan termination liability basis. This includes a change in the method for determining the discount rate. Rather than applying the Citigroup Pension Discount Curve and Liability Index to the projected cash flows as of the measurement date, the discount rate for retirees (and grandfathered “Group F” employees) was set at the estimated interest rate currently being used by insurance companies to price group annuities, which is 3.23% according to BCG Terminal Funding. The discount rate for active and vested terminated participants has been set equal to the current interest crediting rate for the cash balance plan of 3.81%.

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 that have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of September 30, 2019. 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 credit</u>	<u>Net actuarial loss</u>	<u>Total</u>
Amounts recognized in net assets without donor restrictions as of September 30, 2019	—	1,960,116	1,960,116
Amounts in net assets to be recognized during the next fiscal year	—	1,960,116	1,960,116

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**Plan Assets**

The weighted average asset allocation of the Center's assets held for pension benefits as of September 30, 2019 and 2018 was as follows:

<u>Asset category</u>	<u>Pension benefits plan assets at September 30</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	81%	28%
Equity securities:		
Domestic stocks	—	10
Global stocks	—	1
Mutual funds	—	25
Fixed income securities:		
U.S. Treasury obligations	—	3
Government obligations	19	11
Corporate bonds	—	18
Private equity real estate securities	—	4
Total	<u>100%</u>	<u>100%</u>

The tables below summarize the fair values of pension plan assets as of September 30, 2019 and 2018 (see note 6 for discussion of valuation methods).

	<u>September 30, 2019</u>	<u>Fair value measurement at reporting date</u>	
		<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 200,994,564	200,994,564	—
Fixed income securities:			
Government obligations	48,694,216	48,694,216	—
Total	<u>\$ 249,688,780</u>	<u>249,688,780</u>	<u>—</u>

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

	September 30, 2018	Fair value measurement at reporting date	
		Level 1	Level 2
Cash and cash equivalents	\$ 71,640,545	71,640,545	—
Equity securities:			
Domestic stocks	25,288,105	25,288,105	—
Global stocks	3,820,315	3,820,315	—
Mutual funds	65,086,078	—	65,086,078
Fixed income securities:			
Treasury obligations	8,176,494	8,176,494	—
Government obligations	28,030,226	28,030,226	—
Corporate bonds	47,526,431	—	47,526,431
	249,568,194	136,955,685	112,612,509
Recorded at net asset value	11,136,168	—	—
<b>Total</b>	<b>\$ 260,704,362</b>	<b>136,955,685</b>	<b>112,612,509</b>

There were no investments classified as Level 3 during the years ended September 30, 2019 and 2018.

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 currently in a terminated status. 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 of 81% cash and equivalents and 19% fixed income. The expected long-term rate of return on plan assets is determined primarily on expectations of future returns for the defined benefit plan's investments based on the asset allocation outlined in the investment policy statement. Additionally, the historical returns on comparable investments are considered in the estimate of the expected long-term rate of return on plan assets.

**Cash Flows**

The Center does not expect to make any contributions to the Plan in fiscal year 2019. The benefits expected to be paid throughout 2020 is approximately \$229,244,000. As of October 2019, approximately \$171,000,000 of payments have been made with the remainder planned to be annuitized in the near future.

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(b) 403b Savings Plan**

Effective January 1, 2014, the Center's board of trustees approved an amendment and restatement of its 403(b) Savings Plan document to include a matching contribution equal to the sum of 100% of the first 3% of compensation deferred and 50% of the next 2% of compensation deferred. Effective January 1, 2018, the Center's board of directors approved an amendment to include an employer contribution to the plan equal to half of 1% of participant's compensation as well as the ability to make a discretionary employer contribution each year. The original effective date of this plan was December 1, 1999. The Plan was established for the exclusive benefit of the participants and their beneficiaries. All employees are automatically enrolled upon hire for purposes of the elective deferral, unless they opt not to participate. Participants are eligible to receive a matching contribution upon completion of certain service requirements. Contribution expense attributable to this defined contribution plan was approximately \$16,216,000 and \$13,581,000 for the years ended September 30, 2019 and 2018, respectively, and is included in salaries and benefits on the consolidated statements of operations and changes in net assets without donor restrictions.

**(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.

The components of net periodic postretirement benefit cost for the years ended September 30, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Service cost – benefits attributed to service during the year	\$ 43,939	71,644
Interest cost on accumulated postretirement benefit obligation	115,335	164,522
Amortization of net (gain)	(392,725)	(193,582)
Net periodic postretirement benefit cost	\$ (233,451)	42,584



**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The following table sets forth the postretirement plan's funded status and amounts recognized in other liabilities in the Center's consolidated balance sheets as of September 30, 2019 and 2018 (measurement date as of September 30):

	<u>2019</u>	<u>2018</u>
Change in accumulated benefit obligation:		
Accumulated benefit obligation at beginning of year	\$ 3,908,642	4,256,971
Service cost	43,939	71,644
Interest cost	115,335	164,522
Retiree contributions	404,764	448,839
Actuarial (gain)	(942,657)	(417,273)
Benefits paid	<u>(482,640)</u>	<u>(616,061)</u>
Accumulated benefit obligation at end of year	<u>3,047,383</u>	<u>3,908,642</u>
Change in plan assets:		
Employer contribution	77,876	167,222
Employee contribution	404,764	448,839
Benefits paid	<u>(482,640)</u>	<u>(616,061)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status and accrued benefit costs	\$ <u><u>(3,047,383)</u></u>	<u><u>(3,908,642)</u></u>

For measurement purposes, for pre-Medicare benefits, a 6.75% and 7% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2019 and 2018, respectively. For post-Medicare benefits, an 8.5% and 9% annual rate of increase in the per capita costs was assumed for the same period. These rates were assumed to decrease gradually over the next nine years and to remain at 5% thereafter.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 3.56% and 4.38% as of September 30, 2019 and 2018, respectively. The weighted average discount rate used in determining the net benefit cost was 4.38% and 4.20% as of September 30, 2019 and 2018, respectively.

The impact of a one percentage point change in assumed healthcare cost trend rates as of September 30, 2019 is as follows:

	<u>One percentage increase</u>	<u>One percentage decrease</u>
Effect on total of service and interest cost components	\$ 35,376	(26,493)
Effect on postretirement benefit obligation	645,953	(492,063)

## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The following are deferred pension costs that have not yet been recognized in periodic pension expense but instead are accrued in net assets without donor restrictions as of September 30, 2019. Unrecognized actuarial gains and 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 net assets without donor restrictions as of September 30, 2019	\$ (2,439,339)
Net actuarial gain to be recognized during the next year	(300,648)

#### **Cash Flows**

The Center expects to contribute approximately \$176,000 to its postretirement benefit plan in fiscal year 2019.

The benefits expected to be paid in each year from 2020 through 2024 are approximately \$176,000; \$184,000; \$158,000; \$116,000; and \$117,000, respectively. The aggregate benefits expected to be paid in the five years from 2025 through 2029 are \$543,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations as of September 30, 2019 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. Based on current information, management believes at this time that the results of the litigation and inquiries are not likely to have a material adverse effect on the consolidated financial position and results of the Center.

##### **(b) Professional Liability**

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, 2019. The Center has renewed its claims-made policy.

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 \$1,000,000 to \$5,000,000. On May 21, 2010, the Captive was incorporated to provide excess professional liability and general liability coverage to the Center on a claims-made basis. The Captive's liability under this policy is limited to \$85,000,000 per claim and in the aggregate.

## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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 \$83,295,000 and \$79,914,000 as of September 30, 2019 and 2018, respectively, and are included in accounts payable and accrued expenses and other liabilities on the accompanying consolidated balance sheets. The Center records the professional liability based on the actuarially determined expected level. Given the maturity of the plan, the Center believes the expected level is a better estimate of the ultimate outcome than other confidence levels. The expected level is a commonly followed industry practice.

#### **(c) 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, in situations where there is a possible violation or instance of noncompliance, has recorded an estimate of the impact of the possible violation or instance of noncompliance. 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. As a result, there is a possibility that recorded estimates will change.

#### **(12) Other Funding Sources**

The Hospital receives funding from various components of the state of Florida's (the State) Medicaid program, including Medicaid Disproportionate Share Payments (DSH), Low Income Pool program (LIP) and Medicaid prospective payment rates. The State's DSH 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 that provides states with the opportunity to receive additional distributions based upon the cost of charity care provided. Medicaid fee for service is paid based on inpatient APR-DRG and outpatient paid based on outpatient EAPG.

The total funding amounts from the DSH and trauma programs was approximately \$6,200,000 and \$7,828,000 during the years ended September 30, 2019 and 2018, respectively, and are reported as disproportionate share distributions in the accompanying consolidated statements of operations and changes in net assets. Since July 1, 2001, the Hospital has received trauma funding of approximately \$3,500,000 per year from Hillsborough County to supplement the Hospital's reimbursement for trauma services rendered to Hillsborough County residents.

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, 2020. These payments are subject to certain limits (network caps) for each network per contract, including amounts the Hospital must reimburse physicians. For the year ended September 30, 2019 and 2018, approximately \$31,508,000 and \$31,883,000, respectively, were included in net patient services revenue.

## FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### (13) Joint Ventures

In 2014, the Center and Adventist Health System Sunbelt Healthcare Corporation (Florida Hospital) entered in a joint venture arrangement and established West Florida Health, Inc. (WFH), a Florida not-for-profit corporation with a 50% ownership interest. Later that year, West Florida Health, Inc. became the sole member of West Florida Health Home Care, Inc. (WFH HC), a Florida not-for-profit Corporation. In 2016, WFH purchased a noncontrolling 50% interest in Tower Imaging, LLC (Tower).

In 2018, the Center and Florida Hospital reached an agreement with an effective date of July 31, 2018, to unwind their affiliation with respect to WFH and its remaining affiliates and to terminate certain agreements previously entered into as part of the joint venture. As a result of the termination, Florida Hospital became the sole owner of WFH and WFH HC, while the Center became the sole owner of Tower.

During 2019, TGH Ambulatory executed an agreement with Synergic Healthcare Solutions, LLC d/b/a Fast Track Urgent Care Center ("Fast Track") to acquire 50% of the membership interest in the urgent care medical practices owned and operated by Fast Track.

The Center's distributive share of operating gains (losses) of approximately \$1,161,000 and (\$2,218,000) has been included in nonoperating gains (losses) in the consolidated statements of operations and changes in net assets for the years ended September 30, 2019 and 2018, respectively.

### (14) 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, 2019, and 2018, the Foundation held assets for the Hospital that were restricted by donors. The Hospital's interest in the net assets of the Foundation is included in assets limited as to use and amounted to approximately \$14,107,000 and \$12,000,000 as of September 30, 2019 and 2018, 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 healthcare 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, 2019 and 2018, the Center paid the University approximately \$70,517,000 and \$68,285,000, respectively, for these services, which also include the residents' salaries and the related malpractice coverage and medical director fees. These amounts are recorded within salaries and benefits and other expenses in the accompanying consolidated statements of operations and changes in net assets.

In 2019, the Center and the University entered into a 25-year lease agreement in which the Center paid the University \$20,000,000 for approximately 25,000 square feet of space in downtown Tampa to be utilized for urgent care, pharmacy, imaging, radiology, executive wellness, concierge medicine, cardiology and other clinical uses. The agreement served as an additional step to building a strategic relationship to improve and advance the delivery of healthcare across the region, while continuing to innovate through research and teach University medical students, residents, and fellows.

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(15) Functional Expenses**

The Center's expenses are primarily related to providing healthcare services to the community. The functional breakdown of expenses incurred by the Center for the years ended September 30, 2019 and 2018 are as follows:

	<b>September 30, 2019</b>		
	<b>Program activities</b>	<b>Supporting activities</b>	<b>Total</b>
	<b>Healthcare services</b>	<b>General and administrative</b>	
Salaries and benefits	\$ 522,817,434	145,164,073	667,981,507
Medical supplies	325,934,536	—	325,934,536
Other	112,301,031	102,842,095	215,143,126
Purchased services	69,282,916	78,744,073	148,026,989
Depreciation and amortization	40,995,142	22,900,081	63,895,223
Interest	12,720,954	—	12,720,954
<b>Total operating expenses</b>	<b>\$ 1,084,052,013</b>	<b>349,650,322</b>	<b>1,433,702,335</b>

	<b>September 30, 2018</b>		
	<b>Program activities</b>	<b>Supporting activities</b>	<b>Total</b>
	<b>Healthcare services</b>	<b>General and administrative</b>	
Salaries and benefits	\$ 479,723,500	130,028,945	609,752,445
Medical supplies	303,717,624	—	303,717,624
Other	104,161,772	90,468,342	194,630,114
Purchased services	56,181,907	68,513,803	124,695,710
Depreciation and amortization	38,620,152	25,657,485	64,277,637
Interest	12,851,412	—	12,851,412
<b>Total operating expenses</b>	<b>\$ 995,256,367</b>	<b>314,668,575</b>	<b>1,309,924,942</b>

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function of the Center. General and administrative expenses are those supporting activities that are not directly identifiable with one or more program activity. The Center reviews all departments and generally allocates each department to either program services or general and administrative based on departmental function. For depreciation and amortization expenses, the majority is assigned at the department level, however the asset ledger was also reviewed for program service administrative departments to reassign from general and administrative to healthcare services.

**FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(16) Liquidity and Availability**

The Center has financial assets that could be available within one year of the balance sheet date to meet cash needs for general expenditures. These financial assets consist of cash, accounts receivable, short-term investments, and assets whose use is limited. While certain assets are classified as non-current, these assets are considered unrestricted and the Center has the ability to utilize them to meet any current needs that may arise. None of the financial assets quantified in the table below are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. The accounts receivable are expected to be collected within one year. The Center structures its financial assets to be available as its general expenditures, liabilities and other obligations come due.

	<u>2019</u>
Cash and cash equivalents	\$ 42,881,910
Patient accounts receivable	170,078,910
Short-term investments	5,137,497
Assets whose use is limited:	
Board designated funds	<u>800,027,175</u>
Total	<u>\$ 1,018,125,492</u>

**(17) Subsequent Events**

The Center has evaluated subsequent events for recognition and disclosure through December 18, 2019 the date the consolidated financial statements were issued, and has determined that no additional disclosures or adjustments are required.

## **SUPPLEMENTARY INFORMATION**



KPMG LLP  
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Tampa, FL 33602-5145

**Independent Auditors' 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, in accordance with the 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 consolidated financial statements of Florida Health Sciences Center, Inc. (the Center), which comprise the consolidated balance sheets as of September 30, 2019, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 18, 2019.

*Internal Control Over Financial Reporting*

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





*Purpose of this Report*

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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 18, 2019



KPMG LLP  
Suite 1700  
100 North Tampa Street  
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## **Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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

### **Report on Compliance for Each Major Federal Program**

We have audited Florida Health Sciences Center, Inc.'s (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended September 30, 2019. The Center's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance 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 occurred. An audit includes examining, on a test basis, evidence about the Center'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Center's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

### **Report on Internal Control over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that



could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center'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 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 will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of the Center as of and for the year ended September 30, 2019, and have issued our report thereon dated December 18, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

May 29, 2020



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

**Independent Auditors' Report on Compliance for Each Major State Project;  
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of State  
Financial Assistance Required by Chapter 10.650, Rules of the Auditor General**

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

**Report on Compliance for Each Major State Project**

We have audited Florida Health Sciences Center, Inc.'s (the Center) compliance with the types of compliance requirements described in the Florida Department of Financial Services' *State Projects Compliance Supplement* that could have a direct and material effect on each of the Center's major state projects for the year ended September 30, 2019. The Center's major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state projects.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Center's major state projects based on our audit of the types of compliance requirements referred to above. 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; and Chapter 10.650, *Rules of the Auditor General*, State of Florida (Chapter 10.650). Those standards and Chapter 10.650 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 state project occurred. An audit includes examining, on a test basis, evidence about the Center'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 on compliance for the major state project. However, our audit does not provide a legal determination of the Center's compliance.

*Opinion on Each Major State Project*

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2019.

**Report on Internal Control over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that



are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with 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 the Center'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 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 state project will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of State Financial Assistance Required by the Chapter 10.650**

We have audited the consolidated financial statements of the Center as of and for the year ended September 30, 2019, and have issued our report thereon dated December 19, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

May 29, 2020

**FLORIDA HEALTH SCIENCES CENTER, INC.**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

<u>Federal grantor/passed through agency/program title</u>	<u>CFDA number</u>	<u>Agency or passed through grant number</u>	<u>Passed through to subrecipients</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:				
Health Resources and Services Administration				
Passed through:				
Florida Department of Education, Division of Vocational Rehabilitation:				
Florida Alliance for Assistive Services and Technology	93.464	1701FLSGAT	\$ —	\$ 90,800
Total U.S. Department of Education			—	90,800
Passed through:				
State of Florida Department of Health:				
(CDC) Public Health Emergency Preparedness	93.069	COQYB	—	189,043
Passed through Hillsborough County:				
Ryan White - HIV Emergency Relief Project Grants	93.914	HB368	—	386,910
Refugee and Entrant Assistance	93.566	HB368	—	93,750
Direct Program:				
Poison Control Center Enhancement and Awareness	93.253	5 H4BHS15550-10-00	—	352,548
Total U.S. Department of Health and Human Services			—	1,022,251
U.S. Department of Homeland Security:				
Office of Emergency Management Agency (FEMA)				
Passed through:				
State of Florida, Division of Emergency Management:				
Hurricane Irma	97.039	—	—	280,421
Total U.S. Department of Emergency Management			—	280,421
Total Expenditures of Federal Awards			\$ —	\$ 1,393,472

See accompanying independent auditors' report.

**FLORIDA HEALTH SCIENCES CENTER, INC.**

Schedule of Expenditures of State Financial Assistance

Year ended September 30, 2019

<u>State grantor/passed through agency/program title</u>	<u>CSFA number</u>	<u>Agency or passed through grant number</u>	<u>Passed through to subrecipients</u>	<u>Expenditures</u>
State of Florida				
Direct program:				
American Red Cross License Plate	76.037	—	\$ —	\$ 7,910
Total State of Florida			—	7,910
State of Florida Department of Health:				
Poison Information Center – Tampa under Children's Medical Services	64.014	COQVB R1 A2	—	1,600,214
Verified Trauma Center Financial Support	64.075	TRA20	—	733,812
Total State of Florida Department of Health			—	2,334,026
Total Expenditures of State Financial Assistance			\$ —	\$ 2,341,936

See accompanying independent auditors' report.

## FLORIDA HEALTH SCIENCES CENTER, INC.

### Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance

Year ended September 30, 2019

#### (1) General

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance (the Schedules) present 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 Schedules. The information in the Schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), and Chapter 10.650, *Rules of the Auditor General* (Chapter 10.650). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated 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 Schedules have been prepared on the same basis of accounting as the Center's consolidated financial statements. The Center's consolidated financial statements are prepared in accordance with U.S. 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 consolidated financial statements as other revenue.

#### (4) State Matching Funds

As part of the Ryan White – HIV Emergency Relief Project Grants, the Center received \$436,786 in matching funds from the State of Florida for contract HB368 for the year ended September 30, 2019. In accordance with the contract agreements for these grants these amounts have been excluded from the Schedules.

#### (5) 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.

#### (6) Indirect Costs

The Center elects the de minimus rate of 5% and 10% for State and Federal awards, respectively, for determining indirect cost amounts.



**FLORIDA HEALTH SCIENCES CENTER, INC.**  
Schedule of Findings and Questioned Costs  
Year ended September 30, 2019

**(1) Summary of Auditors' Results**

(a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles:	Unmodified
(b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:	
Material weaknesses:	No
Significant deficiencies:	None reported
(c) Noncompliance material to the consolidated financial statements:	No
<i>Federal Awards</i>	
(d) Internal control deficiencies over major programs disclosed by the audit:	
Material weaknesses:	No
Significant deficiencies:	None reported
(e) Type of report issued on compliance for major programs:	Unmodified
(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516 (a)?	No
(g) Major programs:	
<b>Federal programs</b>	<b>CFDA No.</b>
U.S. Department of Health and Human Services: Passed through State of Florida Department of Health Ryan White – HIV Emergency Relief Project Grants	93.914
(h) Dollar threshold used to distinguish between type A and type B programs:	\$750,000
(i) Auditee qualified as a low-risk auditee?	Yes

**FLORIDA HEALTH SCIENCES CENTER, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

*State Financial Assistance*

(j) Internal control deficiencies over major projects disclosed by the audit:

Material weaknesses: No

Significant deficiencies: None reported

(k) Type of report issued on compliance for major state projects: Unmodified

(l) Audit findings that are required to be reported under Chapter 10.650, *Rules of the Auditor General*? No

(m) Major projects:

<b>State projects</b>	<b>CSFA No.</b>
State of Florida Department of Health: Poison Information Center – Tampa under Children’s Medical Services	64.014

(n) Dollar threshold used to distinguish between type A and type B projects: \$300,000

**(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards**

None

**(3) Findings and Questioned Costs Relating to Federal Awards**

None

**(4) Findings and Questioned Costs Relating to State Projects**

None

There are no items related to state financial assistance required to be reported in a management letter pursuant to Chapter 10.650, *Rules of the Auditor General*.



FLORIDA HEALTH SCIENCES CENTER, INC

Summary Schedule of Prior Audit Findings for Fiscal Year End 09/30/19

The following is an update of prior audit findings and is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance), and Chapter 10.650, Rules of the Auditor General.

There are no prior audit findings, thus no management responses or remedies.

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