



FLORIDA HEALTH SCIENCES CENTER, INC.

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

September 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

FLORIDA HEALTH SCIENCES CENTER, INC.

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Florida Health Sciences Center, Inc. (the Center) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Health Sciences Center, Inc. as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(u) to the consolidated financial statements, the Center adopted the provisions of Accounting Standard Update No. 2011-7, *Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, as of September 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the*



Auditor General, and is not a required part of the 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 expenditure of federal awards and state financial assistance is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Tampa, Florida
December 4, 2012
Certified Public Accountants

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Balance Sheets

September 30, 2012 and 2011

Assets	2012	2011
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 89,851,287	28,824,341
Short-term investments	8,152,166	33,127,933
Current portion of assets limited as to use	9,034,450	8,937,878
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$146,042,000 in 2012 and \$137,198,000 in 2011	137,215,612	124,762,316
Inventories	20,615,322	19,216,950
Prepaid expenses and other current assets	<u>17,558,887</u>	<u>32,218,251</u>
Total current assets	282,427,724	247,087,669
Assets limited as to use, less current portion	499,672,068	472,749,670
Property and equipment, net	459,277,846	445,751,659
Other assets	<u>10,131,368</u>	<u>10,967,325</u>
	<u>\$ 1,251,509,006</u>	<u>1,176,556,323</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 80,888,550	68,396,934
Accrued expenses	94,476,220	91,516,693
Current installments of long-term debt	7,627,279	5,582,593
Current installments of obligations under capital leases	53,727	61,172
Estimated third-party payor settlements	<u>69,672,520</u>	<u>59,867,081</u>
Total current liabilities	252,718,296	225,424,473
Long-term debt, excluding current installments	364,912,367	368,446,938
Obligations under capital leases, excluding current installments	32,346	86,074
Other liabilities	<u>166,163,293</u>	<u>164,407,785</u>
Total liabilities	<u>783,826,302</u>	<u>758,365,270</u>
Net assets:		
Unrestricted	450,654,758	399,778,462
Temporarily restricted	16,177,758	17,578,766
Permanently restricted	<u>850,188</u>	<u>833,825</u>
Total net assets	<u>467,682,704</u>	<u>418,191,053</u>
	<u>\$ 1,251,509,006</u>	<u>1,176,556,323</u>

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 970,317,559	1,026,426,930
Provision for bad debts	<u>(48,661,315)</u>	<u>(68,656,371)</u>
Net patient services revenue less provision for bad debts	921,656,244	957,770,559
Disproportionate share distributions	26,121,039	29,841,124
Other revenue	<u>40,352,902</u>	<u>27,677,531</u>
Total unrestricted revenues, gains, and other support	<u>988,130,185</u>	<u>1,015,289,214</u>
Expenses:		
Salaries and benefits	480,497,523	488,057,589
Medical supplies	208,511,053	221,305,646
Purchased services	72,365,891	82,698,848
Utilities and leases	20,747,108	21,105,853
Insurance	25,067,922	23,845,399
Depreciation and amortization	43,508,694	36,816,557
Professional fees	33,923,642	39,261,520
Interest	19,154,570	18,541,482
Other	<u>72,936,519</u>	<u>76,429,541</u>
Total expenses	<u>976,712,922</u>	<u>1,008,062,435</u>
Operating income	<u>11,417,263</u>	<u>7,226,779</u>
Nonoperating gains (losses):		
Investment return	36,849,631	6,614,222
Change in professional liability estimate	—	9,388,329
Contributions	<u>(75,000)</u>	<u>(300,000)</u>
Total nonoperating gains	<u>36,774,631</u>	<u>15,702,551</u>
Revenues, gains, and other support over expenses	48,191,894	22,929,330
Other changes in net assets:		
Net assets released from restrictions used for property and equipment	3,214,168	5,083,163
Pension-related changes other than net periodic pension cost	<u>(529,766)</u>	<u>(1,354,775)</u>
Increase in unrestricted net assets	<u>\$ 50,876,296</u>	<u>26,657,718</u>

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted net assets:		
Revenue, gains, and other support over expenses	\$ 48,191,894	22,929,330
Net assets released from restrictions used for property equipment	3,214,168	5,083,163
Pension-related changes other than net periodic pension cost	<u>(529,766)</u>	<u>(1,354,775)</u>
Increase in unrestricted net assets	<u>50,876,296</u>	<u>26,657,718</u>
Temporarily restricted net assets:		
Net assets released from restrictions:		
Used for property and equipment	(3,214,168)	(5,083,163)
Used for operations	(1,186,062)	(999,361)
Contributions and other	2,715,413	1,342,830
Increase in beneficial interest in net assets of Tampa General Hospital Foundation	<u>283,809</u>	<u>867,868</u>
Decrease in temporarily restricted net assets	<u>(1,401,008)</u>	<u>(3,871,826)</u>
Permanently restricted net assets:		
Increase in beneficial interest in net assets of Tampa General Hospital Foundation	<u>16,363</u>	<u>21,441</u>
Increase in permanently restricted net assets	<u>16,363</u>	<u>21,441</u>
Increase in net assets	49,491,651	22,807,333
Net assets, beginning of year	<u>418,191,053</u>	<u>395,383,720</u>
Net assets, end of year	<u>\$ 467,682,704</u>	<u>418,191,053</u>

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Cash Flows

Years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in net assets	\$ 49,491,651	22,807,333
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	43,508,694	36,816,557
Amortization of debt issue costs	206,851	213,621
Restricted contributions	(1,148,818)	(2,435,345)
Unrealized losses (gains), net	(23,051,906)	18,355,659
Realized gains	(3,915,528)	(12,198,011)
Provision for bad debts	48,661,315	68,656,371
Pension-related changes other than net periodic pension cost	529,766	1,354,775
Changes in operating assets and liabilities:		
Patient accounts receivable	(61,114,611)	(84,237,875)
Inventories	(1,398,372)	4,998,547
Prepaid expenses and other current assets	14,699,364	(1,547,649)
Accounts payable	5,494,289	(11,646,062)
Accrued expenses	2,959,527	7,857,875
Estimated third-party payor settlements	9,805,439	15,505,047
Other liabilities	1,225,742	(11,794,295)
Net cash provided by operating activities	<u>85,953,403</u>	<u>52,706,548</u>
Cash flows from investing activities:		
Purchases of property and equipment	(49,433,448)	(70,069,513)
Increase in assets limited as to use	(51,536)	(10,289,194)
Decrease (increase) in investments	24,975,767	(25,296)
Net cash used in investing activities	<u>(24,509,217)</u>	<u>(80,384,003)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	1,148,818	2,435,345
Proceeds from issuance of long-term debt	5,875,741	—
Payments on long-term debt and capital leases	(7,426,799)	(5,626,651)
Payments of debt issue costs	(15,000)	—
Net cash used in financing activities	<u>(417,240)</u>	<u>(3,191,306)</u>
Increase (decrease) in cash and cash equivalents	61,026,946	(30,868,761)
Cash and cash equivalents at beginning of year	<u>28,824,341</u>	<u>59,693,102</u>
Cash and cash equivalents at end of year	\$ <u><u>89,851,287</u></u>	\$ <u><u>28,824,341</u></u>
Supplemental cash flow information:		
Cash paid for interest	\$ 19,272,898	18,658,308
Accounts payable for property and equipment purchases	6,997,327	2,578,062

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) *Organization and Basis of Presentation*

Florida Health Sciences Center, Inc. (the Center), located in Tampa, Florida, is a not-for-profit entity incorporated during 1997 to meet the 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. The Center incorporated Florida Health Sciences Center, Ltd. (the Captive) on May 21, 2010 under the Companies Law of the Cayman Islands and obtained an Unrestricted Class "B" Insurers License under the provisions of the Cayman Islands Insurance Law. The Captive, a wholly owned subsidiary of the Center, provides professional and general liability coverage to the Center. Tampa General Hospital Foundation (the Foundation) is a related not-for-profit organization, which supports the Center. The consolidated financial statements of the Center include the operations of the Hospital, the Captive, and the Center's beneficial interest in the net assets of the Foundation. All significant intercompany transaction among those entities have been eliminated during consolidation.

On October 1, 1997, control of the operations and all assets and liabilities of the Hospital were transferred from Hillsborough County Hospital Authority (the Authority), a governmental entity, to the Center. The change in control was accomplished through the execution of an agreement between the Authority and the Center, as well as changes granted by the Florida Legislature that provided for the privatization of the Hospital. For financial statement purposes, the change in control was accounted for as a purchase, and accordingly, assets acquired and liabilities assumed were recorded at fair value at the date of acquisition. At the time of change in control, the fair value of liabilities assumed exceeded the fair value of assets acquired on the Hospital financial statements by approximately \$15,102,000. The remaining unamortized goodwill balance is included as a component of other assets.

In connection with the change in control, the Center entered into a 49-year lease agreement, which can be extended for an additional 49 years, with the Authority to lease the land and buildings on the Davis Islands campus, together with all improvements located thereon, for a nominal annual rental amount of \$10. For financial reporting purposes, the fair value of the leased assets of approximately \$86,571,000 as of October 1, 1997 was reported as an increase in temporarily restricted net assets for the year ended September 30, 1998, as the leased assets can only be utilized in accordance with the specifications of the lease agreement. During 2012 and 2011, net assets of approximately \$2,066,000 and \$2,648,000, respectively, were released from restriction, relating to the annual depreciation expense associated with the leased assets.

(b) *Mission Statement*

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

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

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(c) Cash and Cash Equivalents

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

(d) Inventories

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

(e) Assets Limited as to Use

Assets limited as to use primarily include assets held by independent bank trustees on behalf of the Center under terms of bond indentures and self-insurance trust agreements, and assets designated for capital improvements and employee health benefits, 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.

Earnings on investments include realized and unrealized gains and losses on investments, interest income, and dividends and are included as revenues, gains, and other support over expenses in the consolidated statements of operations and changes in unrestricted net assets, unless the income or loss is restricted by donor or law. Investment income and net gains and losses restricted by donor stipulations are reported as an increase or decrease in temporarily restricted net assets.

(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.

(g) Other Assets

Other assets include debt issuance costs of approximately \$3,414,000 and \$3,606,000 as of September 30, 2012 and 2011, respectively. These amounts include costs capitalized in connection with the issuance of the Series 2003 A and B and Series 2006 bonds (note 7). Debt issuance costs

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

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incurred as part of the Series 2003 A and B bonds are amortized over the term of the related debt using the straight-line method, which approximates the effective interest method, and are included as a component of interest expense. Debt issuance costs incurred as part of the issuance of the Series 2006 bonds are amortized using the effective interest method and are included as a component of interest expense. The debt issuance costs are net of accumulated amortization of approximately \$1,659,000 and \$1,452,000 as of September 30, 2012 and 2011, 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 discounts and premiums is included as a component of interest expense. Series 2003 bond discount of approximately \$982,000 and \$1,026,000, and Series 2006 bond premium of \$3,737,000 and \$4,049,000 are included with the related debt in the consolidated balance sheets as of September 30, 2012 and 2011, 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, 2012 and 2011. If there was an indication that the carrying amount of an asset is not recoverable, the Center would estimate 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) *Temporarily and Permanently Restricted Net Assets*

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

Notes to Consolidated Financial Statements

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(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 net assets.

(m) *Patient Accounts Receivable*

Receivables are reported net of an allowance for bad debt and contractual adjustment estimates. Although the aggregate amount of receivables may include balances due from patients and third-party payors (including final settlements and appeals), amounts due from third-party payors for retroactive adjustments of items, such as final settlements or appeals, are reported separately in the consolidated financial statements.

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts, if necessary. For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Center records a significant provision for bad debts in the period of service on the basis of its past experience. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts for self-pay patients increased from 84% of self-pay accounts receivable as of September 30, 2011 to 87% of self-pay accounts receivable as of September 30, 2012. In addition, the Center's self-pay write-offs decreased \$15,599,000 from \$62,644,000 for the year ended September 30, 2011 to \$48,782,000 for the year ended September 30, 2012. These changes were the result of negative trends experienced in the write-off and collection of amounts from self-pay patients during the year ended September 30, 2012. The Center has not changed its charity care or uninsured discount policies during the years ended September 30, 2011 or 2012. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

(n) *Net Patient Service Revenue*

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

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The Center recognizes patient service revenue associated with services provided to patients who have third-party payor (managed care, Medicare, Medicaid, other) coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, (Uninsured Patients) the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. 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 provision for bad debts related to Uninsured Patients in the period the services are provided. Patient service revenue, net of contractual allowances, and discounts (but before the provision for bad debts), recognized for the year ended September 30, 2012 from these major payor sources, are as follows:

Managed care	\$ 348,141,584
Medicare	333,342,116
Medicaid	206,613,796
Other	70,741,813
Self-pay	11,478,250
	<u>\$ 970,317,559</u>

(o) *Electronic Health Record Incentive Program*

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health records (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, upgrade and meaningfully use certified EHR technology. The Center utilizes a grant accounting model to recognize EHR incentive revenues. The Center records EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period for eligible professionals and hospitals is based on the federal fiscal year, which coincides with the Center's fiscal year of October 1 through September 30. The Center believes that it and its eligible professionals that met meaningful use objectives for the fiscal year ending September 30, 2012 will continue to meet those objectives for the fiscal year ending September 30, 2013. EHR incentive revenues are included in other revenues in the accompanying consolidated statements of operations.

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Notes to Consolidated Financial Statements

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

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

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

(q) *Disproportionate Share Distributions*

The State of Florida Agency for Health Care Administration distributes low-income pool and disproportionate share payments to the Center based on its indigent care service level. 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.

(r) *Charity Care*

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

(s) *Income Taxes*

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

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

Accounting principles generally accepted in the United States of America 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, 2012, 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. The Center is subject to routine audits by taxing jurisdictions; however, there are

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

(t) 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.

(u) New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. This ASU clarifies that a healthcare entity should not net insurance recoveries against a related claim liability and was effective for the Center for the year ended September 30, 2012. The adoption of this accounting standard did not have a material impact on the consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-7, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU clarifies that certain healthcare entities should change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. The Center elected to early adopt this ASU for the year ended September 30, 2012.

(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 35% and 25%, respectively, of the Center's net patient services revenue for both the years ended September 30, 2012 and 2011. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid on a prospectively determined rate per discharge based on the Medicare Severity Diagnosis-related Group (MSDRG) assigned to the patient. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology, subject to certain limits and fee schedules. The majority of outpatient services are paid on prospectively determined rates per occurrence based on the ambulatory payment classification assigned to the service provided. The Center also receives a disproportionate share payment from Medicare in addition to its diagnosis-related group payments, based on its level of Medicaid patient volume and low income Medicare beneficiaries.

The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicare fiscal intermediary. Final settlement has been determined for 2006 and prior. Differences between

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estimated provisions for cost report settlements and final amounts are reflected as net patient services revenue in the fiscal year the cost reports are considered finalized. Changes in such estimates related to prior cost reporting periods resulted in an increase in net patient services revenue of approximately \$14,268,000 and \$6,963,000 for the years ended September 30, 2012 and 2011, respectively.

(b) Medicaid

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

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

(3) Charity Care

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

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Traditional charity care	\$ 38,029,000	39,435,000
Unreimbursed Medicaid and Medicaid HMO	21,626,000	24,107,000
Unreimbursed Hillsborough County Health Plan	18,374,000	21,146,000
	<u>\$ 78,029,000</u>	<u>84,688,000</u>
As a percentage of operating expenses	8%	8%

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

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

	<u>2012</u>	<u>2011</u>
Managed care	48%	48%
Medicare	21	18
Medicaid	9	9
Other	22	25
	<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, 2012 and 2011, at fair value, are as follows:

	<u>2012</u>	<u>2011</u>
Internally designated for capital improvements and employee health benefits:		
Cash and cash equivalents	\$ 30,104,603	40,091,242
Equities securities:		
Domestic stocks	148,991,850	87,649,453
Global stocks	30,867,860	18,252,313
Fixed income securities:		
Government obligations	36,444,176	26,450,670
Corporate bonds	144,826,049	185,885,074
Beneficial interest in Tampa General Hospital Foundation	5,150,456	4,850,285
Total internally designated for capital improvements and employee health benefits	<u>396,384,994</u>	<u>363,179,037</u>
Held by trustee under malpractice self-insurance arrangement:		
Cash and cash equivalents	11,237,166	7,506,760
Corporate bonds	411,808	3,286,092
Government obligations	21,369,976	22,538,683
Municipal bonds	27,272,066	35,438,934
Mutual funds	18,533,432	14,744,942
Total held by trustee under malpractice self-insurance arrangement	<u>78,824,448</u>	<u>83,515,411</u>
Held by trustee under bond indentures:		
Cash and cash equivalents	19,359,056	25,994,700
Government obligations	14,138,020	8,998,400
Total held by trustee under bond indentures	<u>33,497,076</u>	<u>34,993,100</u>
Assets limited to use	508,706,518	481,687,548
Amount required to meet current obligations	<u>(9,034,450)</u>	<u>(8,937,878)</u>
Assets limited to use, less current portion	\$ <u>499,672,068</u>	\$ <u>472,749,670</u>

Short-term investments, stated at fair value, consist of the following as of September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 3,130,658	33,127,933
Government bonds	5,021,508	—
	\$ <u>8,152,166</u>	\$ <u>33,127,933</u>

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Investment income and gains and losses on assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended September 30, 2012 and 2011:

	2012	2011
Other revenue:		
Interest income	\$ 3,180,302	4,087,167
Net realized gains on sale of investments, net	160,065	397,591
Unrealized gains (losses) on trading investments, net	2,562,488	(1,961,328)
Total	5,902,855	2,523,430
Nonoperating gains (losses):		
Interest income and dividends	12,604,750	11,208,133
Net realized gains on sale of investments, net	3,755,463	11,800,420
Unrealized gains (losses) on trading investments, net	20,489,418	(16,394,331)
Total	36,849,631	6,614,222
Total investment return	\$ 42,752,486	9,137,652

(6) Fair Value Measurements

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. 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, 2012:

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, 2012 and 2011:

	September 30, 2012	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 89,851,287	89,851,287	—	—
Short-term investments:				
Cash and cash equivalents	8,152,166	8,152,166	—	—
Assets limited to use:				
Cash and cash equivalents	60,700,825	60,700,825	—	—
Equity income securities:				
Domestic stocks	148,991,850	148,991,850	—	—
Global stocks	30,867,860	30,867,860	—	—
Mutual funds	18,533,432	18,533,462	—	—
Fixed income securities:				
Government obligations	71,952,172	71,952,172	—	—
Corporate bonds	145,237,857	—	145,237,857	—
Municipal bonds	27,272,066	—	27,272,066	—
Beneficial interest in Tampa General Hospital Foundation	5,150,456	—	5,150,456	—
	<u>508,706,518</u>	<u>331,046,169</u>	<u>177,660,379</u>	<u>—</u>
Total	\$ <u>606,709,971</u>	<u>429,049,622</u>	<u>177,660,379</u>	<u>—</u>

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	September 30, 2011	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 28,824,341	28,824,341	—	—
Short-term investments:				
Cash and cash equivalents	33,127,933	33,127,933	—	—
Assets limited to use:				
Cash and cash equivalents	73,592,702	73,592,702	—	—
Equity income securities:				
Domestic stocks	87,649,453	87,649,453	—	—
Global stocks	18,252,313	18,252,313	—	—
Mutual funds	14,744,942	14,744,942	—	—
Fixed income securities:				
Government obligations	57,987,753	57,987,753	—	—
Corporate bonds	189,171,166	—	189,171,166	—
Municipal bonds	35,438,934	—	35,438,934	—
Beneficial interest in Tampa General Hospital Foundation	4,850,285	—	4,850,285	—
	<u>481,687,548</u>	<u>252,227,163</u>	<u>229,460,385</u>	<u>—</u>
Total	\$ <u>543,639,822</u>	<u>314,179,437</u>	<u>229,460,385</u>	<u>—</u>

There were no transfers of financial assets or liabilities between Level 1 and Level 2 during the years ended September 30, 2012 and 2011.

(7) Long-Term Debt

Long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>
Series 2003A and B Bonds, net of unamortized discount of \$981,668 and \$1,026,289 at September 30, 2012 and 2011, respectively, maturing in various amounts through October 1, 2034, with stated rates of 2.5% to 5.45%	\$ 180,533,332	184,588,711
Series 2006 Bonds, net of unamortized premium of \$3,737,394 and \$4,048,934 as of September 30, 2012 and 2011, respectively, maturing in various amounts through October 1, 2041, with stated rates of 4% to 5.25%	184,187,395	185,493,934
Note payable, due in monthly installments through 2015 at a stated rate of interest of 6.5%, collateralized by land, with a balloon payment due on November 14, 2015	3,733,858	3,946,886

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	<u>2012</u>	<u>2011</u>
Note payable, due in monthly installments through 2015 at a stated rate of interest of 3.25%, collateralized by software	\$ 4,085,061	—
Total long-term debt	372,539,646	374,029,531
Current installments	<u>(7,627,279)</u>	<u>(5,582,593)</u>
Long-term debt, excluding current installments	\$ <u>364,912,367</u>	\$ <u>368,446,938</u>

Effective May 1, 2003, the Hillsborough County Industrial Authority (Florida) issued \$210,000,000 aggregate principal amounts of tax-exempt Hospital Revenue Refunding Bonds (2003 Bonds), comprising Series A principal \$91,885,000 and Series B principal \$118,115,000. A portion of the proceeds of the 2003 Bonds was used to purchase and redeem the Hospital's outstanding Series 1992 Bonds, and the remaining proceeds of the 2003 Bonds were utilized for the expansion, improvement, and further equipping of the healthcare facilities. The 2003 Bonds contain various covenants, including but not limited to the maintenance of a minimum debt service coverage ratio and provides that certain funds be established with a trustee bank (note 5). Management believes the Center is in compliance with such covenants at September 30, 2012.

On September 28, 2006, the Hillsborough County Industrial Authority (Florida) issued \$185,000,000 aggregate principal amounts of tax-exempt Hospital Revenue Refunding Bonds (2006 Bonds). Proceeds of the 2006 Bonds were utilized for the expansion, improvement, and further equipping of the Hospital's healthcare facilities. The 2006 Bonds contain various covenants, including but not limited to the maintenance of a minimum debt service coverage ratio and provides that certain funds be established with a trustee bank (note 5). Management believes the Center is in compliance with such covenants at September 30, 2012.

The 2006 and 2003 Bonds are secured solely by a pledge of and a security interest in the revenue of the Center. Such pledge and security interest have been assigned to a bank trustee. Stated interest rates on the 2003 Bonds still outstanding range from 4.375% to 5.45%, with an effective interest rate of 5.29% at September 30, 2012, and maturities through October 1, 2034. Except for \$34,825,000 of serial bonds maturing prior to October 1, 2016, the 2003 Bonds are subject to mandatory redemption by the Center beginning October 1, 2016 at par plus accrued interest. Stated interest rates on the 2006 Bonds range from 4.0% to 5.25%, with an effective rate of 5.0% at September 30, 2012, and maturities through October 1, 2041. Except for \$10,215,000 of serial bonds maturing prior to October 1, 2017, the 2006 Bonds are subject to mandatory redemption by the Center beginning October 1, 2017 at par plus accrued interest.

During fiscal year 2013, the Center plans to issue approximately \$160,000,000 of Hillsborough County Industrial Authority Hospital Revenue Refunding Bonds (the Bonds). The net proceeds will be used for potential advance refunding of a portion of the Series 2003 Bonds as well as capital improvement projects of the Center. The issuance of the Bonds and advance refunding of a portion of the Series 2003 Bonds is dependent upon interest rates at the time of planned issuance.

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Scheduled maturities of long-term debt as of September 30, 2012 are as follows:

Year ending September 30:		
2013	\$	7,377,067
2014		7,724,023
2015		9,492,830
2016		6,155,000
2017		6,475,000
Thereafter		<u>332,560,000</u>
Long-term debt, excluding unamortized premiums (discounts)		369,783,920
Unamortized premium		3,737,394
Unamortized discount		<u>(981,668)</u>
Long-term debt, including unamortized premiums (discounts)	\$	<u><u>372,539,646</u></u>

(8) Property and Equipment

Property and equipment consist of the following as of September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 46,639,634	43,896,417
Land improvements, buildings, and fixed equipment	428,724,284	402,507,729
Major moveable equipment	261,610,391	214,681,561
Other equipment	2,385,544	2,337,250
Items under capital lease obligations:		
Equipment	<u>5,569,247</u>	<u>5,569,247</u>
Total property and equipment	744,929,100	668,992,204
Accumulated depreciation and amortization	<u>(304,483,043)</u>	<u>(261,808,204)</u>
Total property and equipment less depreciation and amortization	440,446,057	407,184,000
Construction in progress	<u>18,831,789</u>	<u>38,567,659</u>
Property and equipment, net	\$ <u><u>459,277,846</u></u>	<u><u>445,751,659</u></u>

As of September 30, 2012, the estimated cost to complete construction in progress is approximately \$39,085,000.

Interest expense, net of interest income of approximately \$167,000 and \$855,000, was capitalized during the years ended September 30, 2012 and 2011, respectively.

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(9) Lease Obligations

The Center leases certain medical and other support equipment under noncancelable capital and operating leases. Rent expense under noncancelable operating leases was approximately \$9,007,000 and \$6,058,000 for the years ended September 30, 2012 and 2011, respectively. Future minimum lease payments as of September 30, 2012 are as follows:

	Capital leases	Operating leases
Year ending September 30:		
2013	\$ 56,192	6,776,793
2014	32,779	4,332,284
2015	—	3,524,699
2016	—	1,709,473
2017	—	392,837
	88,971	\$ 16,736,086
Total leases		
Less amounts representing interest	2,898	
Present value of minimum capital lease payments	86,073	
Current installments of obligations under capital leases	(53,727)	
Obligations under capital leases, excluding current installments	\$ 32,346	

(10) Pension and Other Postretirement Benefits

(a) Retirement Plan

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

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

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

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The actuarially computed net periodic pension cost for the Center's Plan for the years ended September 30, 2012 and 2011 included the following components:

	<u>2012</u>	<u>2011</u>
Service cost – benefits earned during the period	\$ 23,612,165	22,691,738
Interest cost on projected benefit obligation	9,864,101	9,972,707
Expected return on plan assets	(12,983,360)	(13,005,046)
Net amortization and deferral of unrecognized losses	<u>4,988,603</u>	<u>4,585,146</u>
Net periodic pension cost	\$ <u>25,481,509</u>	<u>24,244,545</u>

The following table sets forth the Plan's funded status and amount recognized in other liabilities in the Center's consolidated balance sheets as of September 30, 2012 and 2011 (using a measurement date of September 30):

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 233,571,110	214,458,463
Service cost	23,612,165	22,691,738
Interest cost	9,864,101	9,972,707
Actuarial (gain) loss	18,187,468	(4,496,089)
Benefits paid	<u>(9,430,010)</u>	<u>(9,055,709)</u>
Benefit obligation at end of year	<u>275,804,834</u>	<u>233,571,110</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	161,669,419	148,982,130
Actual return on plan assets	28,216,161	390,494
Employer contributions	26,152,486	21,352,504
Benefits paid	<u>(9,430,010)</u>	<u>(9,055,709)</u>
Fair value of plan assets	<u>206,608,056</u>	<u>161,669,419</u>
Funded status and accrued benefit costs	\$ <u>(69,196,778)</u>	<u>(71,901,691)</u>

The accumulated benefit obligation for the Plan was approximately \$250,433,000 and \$204,979,000 as of September 30, 2012 and 2011, respectively.

Weighted average assumptions used to determine projected benefit obligations as of September 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	3.44%	4.33%
Rate of compensation increase	3.00% – 8.00%	3.00% – 8.00%

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The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	4.33%	4.76%
Rate of increase in compensation levels	6.00	6.00
Expected long-term rate of return on plan assets	7.75	7.75

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, 2012. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees:

	<u>Net prior service cost</u>	<u>Net actuarial loss</u>	<u>Total</u>
Amounts recognized in unrestricted net assets as of September 30, 2012	\$ 1,087,079	69,484,193	70,571,272
Amounts in net assets to be recognized during the next fiscal year	236,322	4,144,778	4,381,100

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Plan Assets

The weighted average asset allocation of the Center's pension benefits as of September 30, 2012 and 2011 was as follows:

Asset category	Pension benefits plan assets at September 30	
	2012	2011
Cash and cash equivalents	7%	6%
Equity securities:		
Domestic stocks	60	63
Global stocks	13	10
Fixed income securities:		
U.S. Treasury obligations	1	1
Government agencies	1	1
Corporate bonds	18	19
Total	100%	100%

	September 30, 2012	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 14,488,375	14,488,375	—	—
Equity securities:				
Domestic stocks	122,861,253	122,861,253	—	—
Global stocks	27,476,205	27,476,205	—	—
Fixed income securities:				
Government agencies	2,949,324	2,949,324	—	—
Municipal bonds	2,068,414	—	2,068,414	—
Corporate bonds	36,764,485	—	36,764,485	—
Total	\$ 206,608,056	167,775,157	38,832,899	—

	September 30, 2011	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 7,695,173	7,695,173	—	—
Equity securities:				
Domestic stocks	102,629,713	102,629,713	—	—
Global stocks	16,834,727	16,834,727	—	—
Fixed income securities:				
Government agencies	1,936,621	1,936,621	—	—
Municipal bonds	2,161,315	—	2,161,315	—
Corporate bonds	30,411,870	—	30,411,870	—
Total	\$ 161,669,419	129,096,234	32,573,185	—

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

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

Cash Flows

The Center expects to contribute approximately \$25,028,000 to the Plan in 2013.

The benefits expected to be paid in each year from 2013 through 2017 are approximately \$12,295,000, \$12,980,000, \$13,474,000, \$13,879,000, and \$14,413,000, respectively. The aggregate benefits expected to be paid from 2018 through 2023 are approximately \$96,426,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations as of September 30, 2012 and include estimated future employee service.

(b) Supplemental Retirement Plan

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

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The actuarially computed net periodic pension cost for the Center's SERP for the years ended September 30, 2012 and 2011 included the following components (using a measurement date of September 30):

	<u>2012</u>	<u>2011</u>
Service cost – benefits earned during the period	\$ 1,914,252	1,664,310
Interest cost on projected benefit obligation	695,128	650,666
Net amortization and deferral of unrecognized losses	<u>577,958</u>	<u>430,852</u>
Net periodic pension cost	\$ <u>3,187,338</u>	<u>2,745,828</u>

The following table sets forth the SERP's funded status and amount recognized in other liabilities in the Center's consolidated balance sheets as of September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 17,935,700	14,734,325
Service cost	1,914,252	1,664,310
Interest cost	695,128	650,666
Assumption changes	—	—
Actuarial gain	3,174,740	1,960,062
Benefits paid	<u>(2,054,300)</u>	<u>(1,073,663)</u>
Benefit obligation at end of year	21,665,520	17,935,700
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status and accrued benefit costs	\$ <u>(21,665,520)</u>	<u>(17,935,700)</u>

The accumulated benefit obligation for the SERP was \$17,190,211 and \$14,294,738 as of September 30, 2012 and 2011, respectively.

Weighted average assumptions used to determine projected benefit obligations at September 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	2.54%	3.60%
Rate of compensation increase	3.00% – 8.00%	3.00% – 8.00%

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	3.60%	3.83%
Rate of increase in compensation levels	3.00% – 8.00%	3.00% – 8.00%

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of September 30, 2012. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees:

	<u>Net prior service cost</u>	<u>Net actuarial loss</u>	<u>Total</u>
Amounts recognized in unrestricted net assets as of September 30, 2012	\$ (37,791)	10,339,842	10,302,051
Amounts in net assets to be recognized during the next fiscal year	(53,987)	631,945	577,958

Cash Flows

The Center does not expect to make any contributions to the SERP in fiscal 2013.

The benefits expected to be paid in each year from 2013 through 2017 are approximately \$8,046,000, \$3,096,000, \$947,000, \$1,281,000, and \$493,000, respectively. The aggregate benefits expected to be paid in the five years from 2018 through 2022 are approximately \$10,226,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations at September 30, 2012 and include estimated future employee service.

(c) Other Postretirement Benefits

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

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The components of net periodic postretirement benefit cost for the years ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Service cost – benefits attributed to service during the year	\$ 112,912	301,933
Interest cost on accumulated postretirement benefit obligation	197,769	340,876
Amortization of net gain (loss)	<u>(163,641)</u>	<u>61,000</u>
Net periodic postretirement benefit cost	\$ <u>147,040</u>	<u>703,809</u>

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, 2012 and 2011 (measurement date as of September 30):

	<u>2012</u>	<u>2011</u>
Change in accumulated benefit obligation:		
Accumulated benefit obligation at beginning of year	\$ 4,383,370	7,387,213
Service cost	112,912	301,933
Interest cost	197,769	340,876
Retiree contributions	494,796	423,736
Actuarial loss (gain)	91,846	(3,133,226)
Benefits paid	<u>(783,363)</u>	<u>(937,162)</u>
Accumulated benefit obligation at end of year	<u>4,497,330</u>	<u>4,383,370</u>
Change in plan assets:		
Employer contribution	288,567	513,426
Employee contribution	494,796	423,736
Benefits paid	<u>(783,363)</u>	<u>(937,162)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status and accrued benefit costs	\$ <u>(4,497,330)</u>	<u>(4,383,370)</u>

For measurement purposes, a 9.5% and 10.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2012 and 2011, respectively, and the rate was assumed to decrease gradually to 5.5% over the subsequent three years and remain at that level thereafter.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.5% as of September 30, 2012 and 2011, respectively. The weighted average discount rate used in determining the net benefit cost was 4.6% and 5.0% as of September 30, 2012 and 2011, respectively.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The impact of a one-percentage-point change in assumed healthcare cost trend rates as of September 30, 2012 is as follows:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components	\$ 53,625	(46,501)
Effect on postretirement benefit obligation	846,748	(654,265)

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, 2012. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

Net actuarial gain recognized in unrestricted net assets as of September 30, 2012	\$ (163,641)
Net actuarial gain to be recognized during the next year	70,610

Cash Flows

The Center expects to contribute approximately \$347,000 to its postretirement benefit plan in 2013.

The benefits expected to be paid in each year from 2013 through 2017 are approximately \$346,913, \$260,939, \$293,725, \$236,081, and \$241,425, respectively. The aggregate benefits expected to be paid in the five years from 2018 through 2022 are \$1,291,783. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations as of September 30, 2012 and include estimated future employee service.

(11) Commitments and Contingencies

(a) Litigation

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

The Center insures its professional and general liability on a claims-made basis through a commercial insurance carrier. The Center has secured claims-made coverage continuously from October 1, 1997 through September 30, 2012. 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,

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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 \$80,000,000 per claim and in the aggregate.

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 \$80,619,000 and \$77,685,000 as of September 30, 2012 and 2011, respectively, and are included in accrued expenses and other liabilities on the accompanying consolidated balance sheets. During the year ended September 30, 2011 the Center changed from the actuarially determined 75% confidence level to the expected level. Given the maturity of the plan, the Center believes the expected level is a better estimate of the ultimate outcome than the 75% confidence level previously used. The expected level is a commonly followed industry practice. The net impact to the consolidated statements of operations resulted in a nonoperating gain of approximately \$9,388,000 for the year ended September 30, 2011.

(b) *Third-Party Reimbursement*

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

(12) Other Funding Sources

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

The total funding amounts from the LIP and trauma programs were \$26,100,000 and \$29,800,000 during the years ended September 30, 2012 and 2011, respectively, and are reported as disproportionate share distributions in the accompanying consolidated statements of operations. Since July 1, 2001, the Hospital receives 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.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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, 2013. These payments are subject to certain limits (network caps) for each network per contract, including amounts the Hospital must reimburse physicians. For the years ended September 30, 2012 and 2011, approximately \$20,600,000 and \$17,600,000, respectively, were included in net patient services revenue relating to this contract.

(13) Affiliated Organizations

The Foundation was established to solicit contributions from the general public on behalf of the Hospital for the funding of capital acquisitions and to support Hospital programs. As of September 30, 2012 and 2011, the Foundation held assets for the Hospital that were temporarily and permanently restricted by donors. The Hospital's interest in the net assets of the Foundation is included in assets limited as to use and amounted to approximately \$5,150,000 and \$4,850,000 as of September 30, 2012 and 2011, 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, 2012 and 2011, the Center paid the University approximately \$41,643,000 and \$43,806,000, respectively, for these services, which also include the residents' salaries and the related malpractice coverage and medical director fees. These amounts are recorded within professional fees and other expenses in the accompanying consolidated statements of operations and changes in unrestricted net assets.

(14) Subsequent Events

The Center has evaluated events and transactions occurring subsequent to September 30, 2012 as of December 4, 2012, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



KPMG LLP
Suite 1700
100 North Tampa Street
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 the consolidated financial statements of Florida Health Sciences Center, Inc. (the Center) as of and for the year ended September 30, 2012, and have issued our report thereon dated December 4, 2012, which was modified to reference the adoption of new accounting standards. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



This report is intended solely for the information and use of management, the board of directors, the audit committee, others within the entity, and federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Tampa, Florida
December 4, 2012
Certified Public Accountants



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

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*

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

Compliance

We have audited Florida Health Sciences Center, Inc.'s (the Center) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's *State Projects Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs and state projects for the year ended September 30, 2012. The Center's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, Florida Health Sciences Center, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular



A-133, and Chapter 10.650, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the board of directors, the audit committee, others within the entity, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Tampa, Florida
June 6, 2013
Certified Public Accountants

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended September 30, 2012

Federal or State grantor/pass through agency/program title	CFDA or CSFA number	Agency or pass through grant number	Expenditures
U.S. Department of Education:			
Division of Vocational Rehabilitation Direct Program:			
Florida Alliance for Assistive Services and Technology	84.224	12-CFRDC	\$ 71,922
Florida Alliance for Assistive Services and Technology	84.224	12-CFRDC – Amendment 2	<u>10,000</u>
Total U.S. Department of Education			<u>81,922</u>
U.S. Department of Health and Human Services			
Health Resources and Services Administration:			
Direct Program:			
Poison Control Center Enhancement and Awareness	93.253	6 H4BHS15550-03-03	332,468
National Bioterrorism Hospital Preparedness Program	93.889	COQTL	150,000
CDC Public Health Emergency Preparedness	93.069	COQTL	<u>142,727</u>
Total U.S. Department of Health and Human Services			<u>625,195</u>
Total Expenditures of Federal Awards			\$ <u><u>707,117</u></u>
Florida Department of Education:			
Passed through:			
Florida Alliance for Assistive Services and Technology:			
FL Department of Education, Division of Vocational Rehabilitation, 2010-2011 Gen. Appr. Act-GR	48.018	No. 12-CFRDC	\$ 15,788
FL Department of Education, Division of Vocational Rehabilitation, 2010-2011 Gen. Appr. Act-GR	48.018	12-CFRDC-Amendment 1	<u>10,000</u>
Total Florida Department of Education			<u>25,788</u>
State of Florida Department of Health:			
Poison Information Network	64.014	Contract # COQTJ	713,661
Trauma Center Financial Support	64.075	MOU TRA-20	<u>555,520</u>
Total State of Florida Department of Health			<u>1,269,181</u>
Total Expenditures of State Financial Assistance			\$ <u><u>1,294,969</u></u>

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

FLORIDA HEALTH SCIENCES CENTER, INC.

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

Year ended September 30, 2012

(1) General

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) presents the activity of all federal and state programs administered by Florida Health Sciences Center, Inc. (the Center). Awards received directly from federal and state agencies, as well as those passed through other governmental agencies, are included on the Schedule. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the 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 Schedule of Expenditures of Federal Awards and State Financial Assistance has been prepared on the same basis of accounting as the Center's consolidated financial statements. The Center's financial statements are prepared in accordance with generally accepted accounting principles. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

(3) Relationship to Financial Statements

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

(4) Contingencies

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

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

(1) Summary of Auditors' Results

Financial Statement

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA #</u>	<u>Federal programs</u>
93.253	Poison Control Center Enhancement and Awareness
93.889	National Bioterrorism Hospital Preparedness Program
93.069	CDC Public Health Emergency Preparedness

Dollar threshold used to distinguish between type A and type B project. \$300,000

Auditee qualified as low-risk auditee? Yes No

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

State Projects

Internal control over major projects:

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

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

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

Identification of major projects:

CSFA #	State projects
64.014	Poison Information Network

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 Major Federal Programs: None**
- (4) **Findings and Questioned Costs Relating to Major State Projects: None**
- (5) **There are no items related to state financial assistance required to be reported in a management letter pursuant to Chapter 10.650 *Rules of the Auditor General*.**