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, 2018 and 2017

(With Independent Auditors' Report Thereon)

FLORIDA HEALTH SCIENCES CENTER, INC.

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Florida Health Sciences Center, Inc. and Subsidiaries (the Center), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, 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, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

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. and Subsidiaries as of September 30, 2018 and 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018 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 21, 2018

FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2018 and 2017

Assets		2018	2017
Current assets:			
Cash and cash equivalents	$	97,752,986	129,320,545
Short-term investments		5,137,454	99,030
Current portion of assets limited as to use		4,610,190	4,585,787
Patient accounts receivable, net of allowance for uncollectible accounts of approximately $190,751,000 in 2018 and $144,267,000 in 2017		144,930,153	126,713,524
Inventories		25,906,128	26,762,117
Prepaid expenses and other current assets		66,262,560	66,337,512
Total current assets		344,599,471	353,818,515
Assets limited as to use, less current portion		787,128,917	745,368,255
Property and equipment, net		530,468,572	546,374,339
Investments in joint ventures		19,053,934	12,171,497
Other assets		35,045,619	8,675,516
	$	1,716,296,513	1,666,408,122
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	126,418,162	119,583,521
Accrued expenses		105,501,334	110,319,237
Current installments of long-term debt		8,102,735	7,911,002
Current installment of obligations under capital lease		1,174,537	867,650
Estimated third-party payor settlements		36,871,840	58,927,767
Total current liabilities		278,068,608	297,609,177
Long-term debt, excluding current installments		357,560,745	365,498,949
Obligations under capital lease, excluding current installments		19,856,319	20,563,395
Other liabilities		73,987,149	74,985,093
Total liabilities		729,472,821	758,656,614
Net assets:			
Unrestricted		968,383,667	890,156,316
Temporarily restricted		17,520,831	16,675,998
Permanently restricted		919,194	919,194
Total net assets		986,823,692	907,751,508
	$	1,716,296,513	1,666,408,122

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended September 30, 2018 and 2017

	2018	2017
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,301,306,643	1,269,681,792
Provision for bad debts	(65,612,091)	(88,545,541)
Net patient service revenue less provision for bad debts	1,235,694,552	1,181,136,251
Disproportionate share distributions	7,828,194	6,924,409
Other revenue	81,869,709	69,433,727
Total unrestricted revenues, gains, and other support	1,325,392,455	1,257,494,387
Expenses:		
Salaries and benefits	609,752,445	592,332,652
Medical supplies	303,717,624	270,869,205
Purchased services	124,695,710	118,728,148
Utilities and leases	26,288,664	26,113,678
Insurance	30,734,031	21,454,694
Depreciation and amortization	64,277,637	55,023,662
Professional fees	37,735,070	35,352,876
Interest	12,851,412	12,773,628
Other	101,770,767	102,073,910
Total expenses	1,311,823,360	1,234,722,453
Operating income	13,569,095	22,771,934
Nonoperating gains (losses):		
Investment return	45,645,609	43,589,620
Gain from pension curtailment	11,327,598	—
Other	(4,173,291)	(3,437,972)
Total nonoperating gains	52,799,916	40,151,648
Revenues, gains, and other support over expenses	66,369,011	62,923,582
Other changes in net assets:		
Net assets released from restrictions used for property and equipment and other property transfers	3,294,200	889,685
Pension-related changes other than net periodic pension cost	8,564,140	33,540,137
Increase in unrestricted net assets	$ 78,227,351	97,353,404

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2018 and 2017

		2018	2017
Unrestricted net assets:			
Revenue, gains, and other support over expenses	$	66,369,011	62,923,582
Net assets released from restrictions used for property and equipment and other property transfers		3,294,200	889,685
Pension-related changes other than net periodic pension cost		8,564,140	33,540,137
Increase in unrestricted net assets		78,227,351	97,353,404
Temporarily restricted net assets:			
Net assets released from restrictions:			
Used for property and equipment and other property transfers		(3,294,200)	(889,685)
Used for operations		(1,587,595)	(1,756,107)
Contributions		4,165,234	2,834,441
Minority Interest in the Surgery Center		25,000	—
Increase in beneficial interest in net assets of Tampa General Hospital Foundation		1,536,394	894,647
Increase in temporarily restricted net assets		844,833	1,083,296
Permanently restricted net assets:			
Increase in beneficial interest in net assets of Tampa General Hospital Foundation		—	3,663
Increase in permanently restricted net assets		—	3,663
Increase in net assets		79,072,184	98,440,363
Net assets, beginning of year		907,751,508	809,311,145
Net assets, end of year	$	986,823,692	907,751,508

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$ 79,072,184	98,440,363
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	64,277,637	55,023,662
Amortization of debt issue costs	164,530	164,594
Amortization of bond premiums	(679,102)	(679,521)
Restricted contributions	(3,330,349)	(1,691,479)
Unrealized gains, net	(16,269,740)	(33,389,004)
Realized gains, net	(13,198,080)	(1,990,569)
Loss on joint ventures	2,217,621	2,137,972
Provision for bad debts	65,612,092	88,545,541
Gain from pension curtailment	(11,327,598)	—
Pension-related changes other than net periodic pension cost	(8,564,140)	(33,540,137)
Changes in operating assets and liabilities:		
Patient accounts receivable	(83,828,721)	(91,206,014)
Inventories	855,989	(1,879,105)
Prepaid expenses and other assets	(7,008,143)	(14,885,139)
Accounts payable	9,100,432	28,404,149
Accrued expenses	(4,817,903)	(4,062,810)
Estimated third-party payor settlements	(22,055,927)	(13,295,506)
Other liabilities	(351,147)	9,997,980
Net cash provided by operating activities	49,869,635	86,094,977
Cash flows from investing activities:		
Purchases of property and equipment	(50,032,931)	(87,362,047)
Purchases of assets limited as to use	(1,151,509,672)	(633,099,836)
Proceeds from sales of assets limited as to use	1,139,192,427	679,627,910
(Increase) decrease in short-term investments, net	(5,038,424)	29,973,751
Investment in joint venture	(9,100,058)	(11,787,270)
Net cash used in investing activities	(76,488,658)	(22,647,492)
Cash flows from financing activities:		
Proceeds from restricted contributions	3,330,349	1,691,479
Proceeds from capital lease	—	21,843,593
Payments on long-term debt	(7,231,899)	(8,528,200)
Payments on capital lease obligations	(1,046,986)	(412,548)
Net cash (used in) provided by financing activities	(4,948,536)	14,594,324
(Decrease) increase in cash and cash equivalents	(31,567,559)	78,041,809
Cash and cash equivalents at beginning of year	129,320,545	51,278,736
Cash and cash equivalents at end of year	$ 97,752,986	129,320,545
Supplemental cash flow information:		
Cash paid for interest	$ 12,885,866	12,838,193
Accounts payable for property and equipment purchases	2,265,791	3,375,895

See accompanying notes to consolidated financial statements.

(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 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 the years ended September 30, 2018 and 2017, net assets of approximately $757,000 and $802,000, respectively, were released from restriction, relating to the annual depreciation expense associated with the leased assets.

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.

In 2010, the Hospital created Tampa General Medical Group (TGMG), a division of the Hospital. TGMG includes physicians that were once part of the Lifelink Transplant Institute. TGMG has grown to include physicians specializing in family practice, cardiology, endocrinology, hepatology (liver disease), internal medicine, nephrology (kidney disease), organ transplantation, and surgery. TGMG is comprised of more than 70 physicians that are spread across several locations in the Tampa area. On March 16, 2010, the Center established Tampa General Medical Group, Inc. (TGMG, Inc.), a corporation organized under the laws of the state of Florida, and a wholly owned subsidiary, for the purpose of holding the operations of TGMG. On June 27, 2014, TGMG, Inc. was granted tax exempt status by the Internal Revenue Service. TGMG, Inc. shall be operated exclusively for charitable purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

On July 15, 2014, the Center established FHSC Real Property Holding Company, LLC (FHSC Real Estate), a Limited Liability Company organized under the laws of the state of Florida and a wholly owned subsidiary. FHSC Real Estate was organized to hold future use properties and shall be operated exclusively for charitable purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

On January 31, 2014, the Center established TGH Architecture & Engineering, LLC (TGH Architecture), a Limited Liability Company organized under the laws of the state of Florida, and a wholly owned subsidiary, for the purpose of holding architectural licenses for the Center. The Company shall be operated exclusively for charitable purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

On October 14, 2014, the Center established TGHHOC Inc. (dba House of Coffee Tampa), a corporation organized under the laws of the State of Florida and a wholly owned subsidiary, for the purpose of operating a Starbucks Restaurant. TGHHOC Inc. was funded by the Center with an initial capital contribution of $357,000, which it used partially to purchase the assets of the restaurant from the Center at fair market value, and began operations on May 1, 2015. On April 1, 2017 a second restaurant (dba Healthplex Café) was opened in the TGH Brandon Healthplex and is operated under TGHHOC Inc.

On April 8, 2016, the Center established TGH Ancillary Holding Company, Inc. (TGH Ancillary), a corporation organized under the laws of the State of Florida and a wholly owned subsidiary. On June 8, 2016, TGH Ancillary established three companies: TGH Staffing, LLC; The Surgery Center at TGH Brandon Healthplex, LLC; and TGH Brandon Healthplex Pharmacy, LLC. Each is a Limited Liability Company organized under the laws of the State of Florida, and a wholly owned subsidiary of TGH Ancillary, that began operations during 2017.

The consolidated financial statements of the Center include the operations of the Hospital, the Captive, TGMG, Inc., FHSC Real Estate, TGH Architecture, TGHHOC Inc., TGH Ancillary, and the Center’s beneficial interest in the net assets of the Foundation. 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.

(b) Mission Statement

Tampa General Hospital is committed to serving all residents of West Central Florida. The Hospital provides comprehensive health services, ranging from wellness and primary care to the most complex specialty care and post-acute services. The Hospital’s care reflects a patient-centered approach, and the Hospital’s services are delivered in an exceptional manner, with benchmark performance in clinical outcomes, care processes, cost-effectiveness, and patient experience. With the Hospital’s unique blend of academic and other healthcare partners, the Hospital plays a special role in supporting medical education and research in its region.

(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 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 changes 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) 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, 2018 and 2017. 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 $165,000 for the years ending September 30, 2018 and 2017 is included as a component of interest expense. The debt issuance costs, net of accumulated amortization, are approximately $2,245,000 and $2,410,000 as of September 30, 2018 and 2017, respectively.

(Continued)

(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 $679,000 and $680,000 for the years ending September 30, 2018 and 2017, respectively, is included as a component of interest expense. Bond premiums of approximately $8,661,000 and $9,340,000 are included with the related debt in the consolidated balance sheets as of September 30, 2018 and 2017, 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, 2018 and 2017. 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) 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.

(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).

 (Continued)

(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 payers (including final settlements and appeals), amounts due from third-party payers for retroactive adjustments of items, such as final settlements or appeals, are reported separately in the 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 private self-pay patients increased from 83% of self-pay accounts receivable as of September 30, 2017 to 88% of self-pay accounts receivable as of September 30, 2018. In addition, the Center’s private self-pay accounts receivable increased from $47,200,000 for the year ended September 30, 2017 to $71,500,000 for the year ended September 30, 2018. The Center has not changed its charity care or uninsured discount policies during the years ended September 30, 2018 or 2017.

(n) Net Patient Services Revenue

Net patient services revenue is recorded in the period in which services are provided and is reported at the net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers. 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.

The Center recognizes patient service revenue associated with services provided to patients who have third-party (managed care, Medicare, Medicaid, other) payer 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 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 years ended September 30, 2018 and 2017 from these major payer sources are as follows:

	2018	2017
Managed care	$ 603,357,872	577,728,682
Medicare	438,004,976	439,569,435
Medicaid	208,827,014	232,462,448
Other	44,474,474	14,232,282
Self-pay	6,642,307	5,688,945
	$ 1,301,306,643	1,269,681,792

(o) *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 unrestricted 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. Other changes in unrestricted net assets consist primarily of pension liability adjustments and contributions of long-lived assets, if any.

(p) *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.

(q) *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.

(r) *Income Taxes*

The Center, except for TGHHOC Inc. and the companies established as wholly owned subsidiaries under TGH Ancillary, 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.

TGHHOC and the companies established as wholly owned subsidiaries under TGH Ancillary 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.

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 (U.S. GAAP) 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, 2018 and 2017, 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 currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2015.

(s) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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.

(t) Going Concern

In accordance with 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.

(u) Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 consolidated financial statement presentation.

(2) Net Patient Service Revenue

The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. The most significant third-party payers to the Center are the Medicare and Medicaid programs, which account for approximately 50% and 53% of the Center's net patient service revenue for the years ended September 30, 2018 and September 30, 2017, respectively. A summary of the payment arrangements with major third-party payers 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 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 $8,502,000 and $9,359,000 for the years ended September 30, 2018 and September 30, 2017, respectively.

(b) Medicaid

Historically, inpatient and outpatient services rendered to Florida Medicaid program beneficiaries were paid under a cost reimbursement methodology, subject to certain limits. Beginning on July 1, 2013, the Florida Legislature mandated a new inpatient payment methodology utilizing the All-Patient Refined Diagnosis Related Group (APR-DRG). The methodology, which is utilized by most state Medicaid programs, includes severity of illness information in a set of refined DRGs. In addition, the Florida Legislature mandated that the majority of Florida Medicaid beneficiaries be transitioned to Statewide Medicaid Managed Care (SMMC) beginning on June 1, 2014. 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.

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, 2018 and 2017:

	2018	2017
Traditional charity care	$ 52,790,000	49,984,000
Unreimbursed Medicaid and Medicaid HMO	58,487,000	47,817,000
Unreimbursed Hillsborough County Health Plan	21,446,000	21,477,000
	$ 132,723,000	119,278,000
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 payer agreements. The mix of receivables from patients and third-party payers as of September 30 is as follows:

	2018	2017
Managed care	56%	56%
Medicare	23	21
Medicaid	3	3
Other	18	20
	100%	100%

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

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

Assets limited as to use as of September 30, 2018 and 2017, at fair value, are as follows:

	2018	2017
Internally designated for capital improvements and employee health benefits:		
Cash and cash equivalents	$ 33,127,671	31,387,714
Equities securities:		
Domestic stocks	96,308,824	49,748,433
Global stocks	39,815,151	54,531,712
Fixed income securities:		
Government obligations	182,979,336	155,145,151
Corporate bonds	222,360,695	196,767,020
Equity index fund	149,082,723	184,281,933
Total internally designated for capital improvements and employee health benefits	723,674,400	671,861,963
Beneficial interest in Tampa General Hospital Foundation	12,000,422	10,464,028
Held by trustee under malpractice self-insurance arrangement:		
Cash and cash equivalents	14,761,538	14,641,477
Corporate bonds	10,414,851	10,766,811
Government obligations	3,522,643	6,376,664
Municipal bonds	9,268,171	10,522,085
Mutual funds	18,096,984	25,320,916
Total held by trustee under malpractice self-insurance arrangement	56,064,187	67,627,953
Held by trustee under bond indentures:		
Cash and cash equivalents	98	98
Assets limited to use	791,739,107	749,954,042
Amount required to meet current obligations	(4,610,190)	(4,585,787)
Assets limited to use, less current portion	$ 787,128,917	745,368,255

(Continued)

Short-term investments, stated at fair value, consisted of cash and cash equivalents as of September 30, 2018 and 2017:

	2018	2017
Cash and cash equivalents	$ 5,137,454	99,030
	$ 5,137,454	99,030

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, 2018 and 2017:

	2018	2017
Other revenue:		
Interest income	$ 1,477,624	1,339,548
Net realized gains (losses) on sale of investments	2,330,518	(94,647)
Unrealized (losses) gains on trading investments, net	(810,849)	3,043,490
Total	2,997,293	4,288,391
Nonoperating gains:		
Interest income and dividends	17,697,458	15,140,029
Net realized gains (losses) on sale of investments	10,867,562	(1,895,922)
Unrealized gains on trading investments, net	17,080,589	30,345,514
Total	45,645,609	43,589,621
Total investment return	$ 48,642,902	47,878,012

(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, 2018 and 2017:

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.

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, 2018 and 2017:

			Fair value measurement at reporting date	
		September 30, 2018	**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		791,739,107	388,612,245	403,126,862
Total	$	894,629,547	491,502,685	403,126,862

	September 30, 2017	Fair value measurement at reporting date	
		Level 1	Level 2
Cash and cash equivalents	$ 129,320,545	129,320,545	—
Short-term investments:			
Cash and cash equivalents	99,030	99,030	—
Assets limited to use:			
Cash and cash equivalents	46,029,289	46,029,289	—
Equity securities:			
Domestic stocks	49,748,433	49,748,433	—
Global stocks	54,531,712	54,531,712	—
Mutual funds	25,320,916	25,320,916	—
Fixed income securities:			
Government obligations	161,521,815	161,521,815	—
Corporate bonds	207,533,831	—	207,533,831
Municipal bonds	10,522,085	—	10,522,085
Equity index fund	184,281,933	—	184,281,933
Beneficial interest in Tampa General Hospital Foundation	10,464,028	—	10,464,028
Total assets limited to use	749,954,042	337,152,165	412,801,877
Total	$ 879,373,617	466,571,740	412,801,877

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, 2018 and 2017. There were no investments classified as Level 3 during the years ended September 30, 2018 and 2017.

(7) Long-Term Debt

Long-term debt consists of the following:

		2018	2017
Series 2012A Bonds, net of unamortized premium of $8,660,638 and $9,339,740 as of September 30, 2018 and 2017, respectively, maturing in various amounts through October 1, 2043, with stated rates of 3% to 5%	$	163,450,639	165,159,740
2013 Bank Loan, maturing in various amounts through October 1, 2024 at a stated interest rate of 2.57%		25,725,000	29,692,000
2015 Bank Loan, maturing in various amounts through October 1, 2041 at a stated interest rate of 2.52%		178,733,400	180,968,300
Total long-term debt		367,909,039	375,820,040
Less current installments		(8,102,735)	(7,911,002)
Less debt issuance costs		(2,245,559)	(2,410,089)
Long-term debt, excluding current installments		357,560,745	365,498,949

On February 28, 2013, the Hillsborough County Industrial Development Authority (Florida) 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 (Florida), 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), 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.

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 4.37% at September 30, 2018 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 2.64% at September 30, 2018, 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, 2018 and maturities to October 1, 2041.

Scheduled maturities of long-term debt as of September 30, 2018 are as follows:

Year ending September 30:	
2019	$ 7,433,000
2020	7,661,300
2021	7,879,400
2022	8,111,600
2023	8,235,800
Thereafter	319,927,300
Long-term debt, excluding unamortized premiums	359,248,400
Unamortized premium	8,660,639
Long-term debt, including unamortized premiums	$ 367,909,039

(8) Property and Equipment

Property and equipment consist of the following as of September 30, 2018 and 2017:

	2018	2017
Land	$ 59,057,227	52,665,127
Land improvements, buildings, and fixed equipment	540,296,687	530,369,057
Major moveable equipment	451,471,871	423,091,883
Leasehold improvements	18,917,925	19,090,015
Capital leases	21,843,593	21,843,593
Vehicles	1,837,612	3,432,930
Total property and equipment	1,093,424,915	1,050,492,605
Accumulated depreciation and amortization	(585,779,047)	(534,489,854)
Total property and equipment less depreciation and amortization	507,645,868	516,002,751
Construction in progress	22,822,704	30,371,588
Property and equipment, net	$ 530,468,572	546,374,339

Depreciation expense amounted to approximately $63,674,000 and $54,420,000 during the years ending September 30, 2018 and 2017, respectively. Approximately $13,171,000 of assets were removed from the consolidated balance sheets in 2018 as these assets were no longer utilized by the Center.

As of September 30, 2018, the estimated cost to complete construction in progress is approximately $57,130,000.

No interest was capitalized during the years ended September 30, 2018 and 2017.

(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. At September 30, 2018 and 2017, the gross amount of building and equipment and accumulated amortization recorded under a capital lease are as follows:

		2018	2017
Building and equipment	$	22,660,070	21,843,593
Less accumulated amortization		(1,629,214)	(412,548)
	$	21,030,856	21,431,045

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

The Center leases certain medical and other support equipment under operating leases. Rent expense under noncancelable operating leases was approximately $14,535,200 and $14,039,000 for the years ended September 30, 2018 and 2017, respectively, and is included in other expenses on the consolidated statements of operations and changes in unrestricted net assets. Future minimum lease payments as of September 30, 2018 are as follows:

		Capital leases		Operating leases
Year ending September 30:				
2019	$	1,174,537		10,112,586
2020		1,194,603		7,333,942
2021		1,126,201		4,014,274
2022		1,166,526		1,975,749
2023 and thereafter		16,368,989		673,778
Total minimum lease payments		21,030,856	$	24,110,329
Less current installment of obligations under capital lease		(1,174,537)		
Obligations under capital leases, excluding current installment	$	19,856,319		

(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.

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 $1,303,000 to adjust the previously estimated settlement charge of $1,000,000 during the year ended September 30, 2018.

The actuarially computed net periodic pension cost for the Center's Plan for the years ended September 30, 2018 and 2017 included the following components and reflects the impact of the contribution reduction:

		2018	2017
Service cost – benefits earned during the period	$	2,482,332	10,282,583
Interest cost on projected benefit obligation		8,494,975	8,271,509
Expected return on plan assets		(17,126,413)	(16,061,364)
Net amortization of prior service cost and deferral of unrecognized (gains)/losses		(164,191)	325,438
Net periodic pension cost	$	(6,313,297)	2,818,166

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, 2018 and 2017 (using a measurement date of September 30):

		2018	2017
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	262,068,152	282,311,073
Service cost		2,482,332	10,282,583
Interest cost		8,494,975	8,271,509
Curtailment		507,257	—
Actuarial (gain)		(22,367,005)	(22,718,151)
Benefits paid		(977,952)	(16,078,862)
Settlements		(17,636,024)	—
Projected benefit obligation at end of year		232,571,735	262,068,152
Change in plan assets:			
Fair value of plan assets at beginning of year		264,084,065	248,785,593
Actual return on plan assets		15,234,273	26,377,334
Employer contributions		—	5,000,000
Benefits paid		(977,952)	(16,078,862)
Settlements		(17,636,024)	—
Fair value of plan assets		260,704,362	264,084,065
Funded status and accrued benefit costs	$	28,132,627	2,015,913

The accumulated benefit obligation for the Plan was approximately $232,572,000 and $261,974,000 as of September 30, 2018 and 2017, respectively.

Weighted average assumptions used to determine projected benefit obligations as of September 30, 2018 and 2017 were as follows:

	2018	2017
Discount rate	3.23% / 3.81%	3.37 %
Projected rate of compensation increase	N/A	3.00%–8.00%

The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2018 and 2017 are as follows:

	2018	2017
Discount rate	3.23% / 3.81%	3.37 %
Projected rate of increase in compensation levels	N/A	3.00%–8.00%
Expected long-term rate of return on plan assets	6.68 %	6.68 %

In consideration of the Plan termination effective December 31, 2018, the method for valuing liabilities for ASC 715-30 accounting purposes has been 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) has been 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, 2018. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees:

	Net prior service credit	Net actuarial gain	Total
Amounts recognized in unrestricted net assets as of September 30, 2018	—	(3,992,219)	(3,992,219)
Amounts in net assets to be recognized during the next fiscal year	—	(300,000)	(300,000)

Plan Assets

The weighted average asset allocation of the Center's assets held for pension benefits as of September 30, 2018 and 2017 was as follows:

	Pension benefits plan assets at September 30	
Asset category	**2018**	**2017**
Cash and cash equivalents	28%	3%
Equity securities:		
Domestic stocks	10	10
Global stocks	1	1
Mutual funds	25	56
Fixed income securities:		
U.S. Treasury obligations	3	13
Government agencies	11	—
Corporate bonds	18	17
Private equity real estate securities	4	—
Total	100%	100%

The tables below summarize the fair values of pension plan assets as of September 30, 2018 and 2017 (see note 6 for discussion of valuation methods).

		Fair value measurement at reporting date	
	September 30, 2018	**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	—	—
Total	$ 260,704,362	136,955,685	112,612,509

	September 30, 2017	Fair value measurement at reporting date	
		Level 1	Level 2
Cash and cash equivalents	$ 6,295,600	6,295,600	—
Equity securities:			
Domestic stocks	27,379,010	27,379,010	—
Global stocks	2,070,913	2,070,913	—
Mutual funds	149,011,017	—	149,011,017
Fixed income securities:			
Treasury obligations	33,488,315	33,488,315	—
Government obligations	488,780	488,780	—
Corporate bonds	45,350,430	—	45,350,430
Total	$ 264,084,065	69,722,618	194,361,447

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, 2018 and 2017. There were no investments classified as Level 3 during the years ended September 30, 2018 and 2017.

The Plan invests a portion of its assets in Private Equity Real Estate Securities Fund (Private ERES Fund). The Private ERES Fund measures its assets at fair value and reports a net asset value (NAV) per share on a calendar quarter basis one quarter in arrears. In accordance with FASB ASC Topic 820, the Center has elected to apply the practical expedient and to value the Plan's investment in the Private ERES Fund at its respective NAV at each quarter. As of September 30, 2018, the Plan's investment in Private ERES Fund was valued at the NAV of the Private ERES Fund. Redemption frequency is quarterly upon one quarter's advance notice.

The Center has elected to adopt ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – a consensus of the Emerging Issues Task Force* issued on May 1, 2015. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet. There are no unfunded commitments related to the Plans' investments measured at NAV as a practical expedient.

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 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 68% equities and 32% fixed income. 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 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 2018. The benefits expected to be paid throughout 2020 is approximately $221,962,000.

(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 $13,581,000 and $12,266,000 for the years ended September 30, 2018 and 2017, respectively, and is included in salaries and benefits on the consolidated statements of operations and changes in unrestricted net assets.

(c) 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. As of September 30, 2016, the plan was effectively frozen and subsequently terminated. Vested benefits were distributed to participants in October 2016, in accordance with Section 409A of the Internal Revenue Code and final payment of $12,316,000 was made in 2017.

(d) 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, 2018 and 2017 are as follows:

	2018	2017
Service cost – benefits attributed to service during the year	$ 71,644	88,275
Interest cost on accumulated postretirement benefit obligation	164,522	172,145
Amortization of net (gain)	(193,582)	(166,055)
Net periodic postretirement benefit cost	$ 42,584	94,365

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, 2018 and 2017 (measurement date as of September 30):

	2018	2017
Change in accumulated benefit obligation:		
Accumulated benefit obligation at beginning of year	$ 4,256,971	3,991,169
Service cost	71,644	88,275
Interest cost	164,522	172,145
Retiree contributions	448,839	412,762
Actuarial loss (gain)	(417,273)	100,880
Benefits paid	(616,061)	(508,260)
Accumulated benefit obligation at end of year	3,908,642	4,256,971
Change in plan assets:		
Employer contribution	167,222	95,498
Employee contribution	448,839	412,762
Benefits paid	(616,061)	(508,260)
Fair value of plan assets at end of year	—	—
Funded status and accrued benefit costs	$ (3,908,642)	(4,256,971)

For measurement purposes, for pre-Medicare benefits, a 7% and 7.25% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2018 and 2017, respectively. For post-Medicare benefits, a 9% and 9.5% 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 4.38% and 4.20% as of September 30, 2018 and 2017, respectively. The weighted average discount rate used in determining the net benefit cost was 4.20% as of September 30, 2018 and 2017.

The impact of a one percentage point change in assumed healthcare cost trend rates as of September 30, 2018 is as follows:

		One percentage increase	One percentage decrease
Effect on total of service and interest cost components	$	50,624	(38,468)
Effect on postretirement benefit obligation		773,302	(596,142)

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, 2018. 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 unrestricted net assets as of September 30, 2017	$	(1,889,407)
Net actuarial gain to be recognized during the next year		(194,869)

Cash Flows

The Center expects to contribute approximately $245,000 to its postretirement benefit plan in fiscal year 2018.

The benefits expected to be paid in each year from 2019 through 2023 are approximately $245,000; $217,000; $204,000; $178,000; and $151,000, respectively. The aggregate benefits expected to be paid in the five years from 2024 through 2028 are $821,000. The expected benefits are based on the same assumptions used to measure the Center’s benefit obligations as of September 30, 2018 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, 2018. 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 $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 $79,914,000 and $86,675,000 as of September 30, 2018 and 2017, respectively, and are included in 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 $7,828,194 and $6,924,000 during the years ended September 30, 2018 and 2017, respectively, and are reported as disproportionate share distributions in the accompanying consolidated statements of operations and changes in unrestricted 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, 2019. 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, 2018 and 2017, approximately $31,883,000 and $27,451,000, respectively, were included in net patient services revenue.

(13) Joint Ventures

In 2014, the Center and Adventist Health System Sunbelt Healthcare Corporation (Florida Hospital) established West Florida Health, Inc. (WFH), a Florida not-for-profit corporation based on a $1,000,000 contribution by each in exchange for 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 December 2016, WFH purchased a noncontrolling 50% interest in Tower Imaging, LLC (Tower) for $18,604,600. The Center and Florida Hospital each contributed approximately $9,300,000 to WFH to fund this purchase.

On August 15, 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. As consideration for this agreement, the Center paid Florida Hospital $9,367,461 for its share in Tower. In addition, WFH HC paid the Center $989,851 which represented the net amount due for loan repayment, incurred and prepaid administrative service fees, less a final capital contribution. The balances in the bank accounts of WFH and its affiliates as of the June 30, 2018 valuation date totaling $2,006,831 were distributed to the Center and Florida Hospital in accordance with the agreement.

The Center's distributive share of operating losses of approximately $2,217,621 and $2,138,000 has been included in nonoperating gains (losses) in the consolidated statements of operations and changes in unrestricted net assets for the years ended September 30, 2018 and 2017, 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, 2018 and 2017, 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 $12,000,000 and $10,464,000 as of September 30, 2018 and 2017, 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, 2018 and 2017, the Center paid the University approximately $68,284,538 and $68,120,858, 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, professional fees and other expenses in the accompanying consolidated statements of operations and changes in unrestricted net assets.

(15) Subsequent Events

The Center has evaluated subsequent events for recognition and disclosure through December 21, 2018 the date the consolidated financial statements were issued, and has determined that no additional disclosures or adjustments are required.

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. and Subsidiaries:

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. and Subsidiaries (the Center), which comprise the consolidated balance sheets as of September 30, 2018, and the related consolidated statements of operations and changes in unrestricted net assets, 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 21, 2018.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 21, 2018

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

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, 2018. 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 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, 2018.

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, 2018, and have issued our report thereon dated December 21, 2018, which contained an unmodified opinion on those 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 31, 2019

KPMG LLP
Suite 1700
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, 2018. 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, 2018.

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, 2018, and have issued our report thereon dated December 21, 2018, which contained an unmodified opinion on those 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 31, 2019

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal grantor/pass through agency/program title	CFDA number	Agency or pass through grant number	Passed through to subrecipients	Expenditures
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	$ —	$ 90,000
Total U.S. Department of Education			—	90,000
Passed through:				
State of Florida Department of Health:				
(ASPR) National Bioterrorism Hospital Preparedness Program	93.069	COQVI-R3,A1	—	66,477
(CDC) Public Health Emergency Preparedness	93.069	COQVI-R3,A1	—	76,896
(CDC) Public Health Emergency Preparedness	93.069	COQYB		47,454
Ryan White - HIV Emergency Relief Project Grants	93.914	HB368	—	389,910
			—	389,910
Refugee and Entrant Assistance	93.566	HB368	—	93,750
			—	93,750
Direct Program:				
Poison Control Center Enhancement and Awareness	93.253	6 H4BHS15550-09-01	—	397,586
Total U.S. Department of Health and Human Services			—	1,072,073
Total Expenditures of Federal Awards			$ —	$ 1,162,073

See accompanying independent auditors' report.

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Expenditures of State Financial Assistance

Year ended September 30, 2018

State grantor/pass through agency/program title	CSFA number	Agency or pass through grant number	Passed through to subrecipients	Expenditures
State of Florida				
Direct program:				
American Red Cross License Plate	76.037	—	$ —	$ 3,158
Total State of Florida			—	3,158
State of Florida Department of Health:				
Poison Information Center – Tampa	64.014	COQVB R1 A1	$ —	$ 1,600,214
Verified Trauma Center Financial Support	64.075	TRA20	—	517,342
Total State of Florida Department of Health			—	2,117,556
Total Expenditures of State Financial Assistance			$ —	$ 2,120,714

See accompanying independent auditors' report.

(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 contracts HB334 and HB368 for the year ended September 30, 2018. 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 received a negotiated indirect cost rate for federal awards and state projects; therefore, it did not elect to charge the de minimus rate of 10% for determining indirect cost amounts.

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2018

(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

Federal Awards

(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:	

Federal programs	CFDA No.
U.S. Department of Health and Human Services:	
Health Resources and Services Administration	
Poison Control Center Enhancement and Awareness	93.253

(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, 2018

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:

State projects	CSFA No.
State of Florida Department of Health:	
Poison Information Center – Tampa	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 09/30/18

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.

Contact Person: Beth Gravel, Hospital Accounting Manager
813 844-8143