

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

**H. Lee Moffitt Cancer Center & Research
Institute, Inc. and Subsidiaries**

June 30, 2020 and 2019

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GRANT THORNTON LLP

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D 813 229 7201**F** 813 223 3015**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors
H. Lee Moffitt Cancer Center & Research Institute, Inc.

Report on the financial statements

We have audited the accompanying consolidated financial statements of H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries (the "Cancer Center"), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's 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 Cancer Center'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 Cancer Center'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 opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

As discussed in Note 2 to the consolidated financial statements, during 2020 the Cancer Center adopted the following Accounting Standards Update: 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Other matters*Supplementary information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and the consolidating statement of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary 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 audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 21, 2020, on our consideration of the Cancer 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 Cancer 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 the Cancer Center's internal control over financial reporting and compliance.



Tampa, Florida
September 21, 2020

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

June 30,

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 300,165,771	\$ 265,525,180
Current portion of assets limited as to use	16,404,914	21,816,343
Patient accounts receivable	163,295,192	163,877,080
Current portion of pledges receivable	3,203,850	5,213,763
Inventories	30,123,202	19,092,902
Grant receivables, net	41,125,997	26,331,353
Estimated third-party settlements receivable, net	-	15,658,847
Prepaid and other current assets	28,184,308	35,498,763
Total current assets	582,503,234	553,014,231
ASSETS LIMITED AS TO USE, NET OF CURRENT PORTION	785,794,826	356,844,546
PLEDGES RECEIVABLE, LESS DISCOUNTS AND ALLOWANCES FOR UNCOLLECTIBLE PLEDGES, NET OF CURRENT PORTION	5,084,377	6,842,318
RIGHT OF USE ASSET - OPERATING LEASES	35,291,058	-
PROPERTY, PLANT, AND EQUIPMENT:		
Land	26,107,905	18,106,905
Building and land improvements	573,050,931	514,204,864
Equipment	561,474,650	506,255,707
	1,160,633,486	1,038,567,476
Less accumulated depreciation	(655,490,747)	(615,392,667)
	505,142,739	423,174,809
Construction-in-progress	39,968,317	50,714,186
	545,111,056	473,888,995
OTHER ASSETS	86,460,103	64,875,584
Total assets	<u>\$ 2,040,244,654</u>	<u>\$ 1,455,465,674</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 124,363,268	\$ 112,347,236
Accrued employee compensation	88,425,161	82,343,394
Accrued interest	4,955,726	4,987,294
Current portion of deferred revenue	2,910,500	15,204,848
Estimated third-party settlements payable, net	18,403,688	-
Current portion of operating lease liability	9,936,847	-
Current portion of long-term debt	12,645,000	12,055,000
Total current liabilities	261,640,190	226,937,772
OTHER LIABILITIES	12,975,575	20,454,400
OPERATING LEASE LIABILITY, NET OF CURRENT PORTION	31,844,454	-
LONG-TERM DEBT, NET OF CURRENT PORTION	689,845,577	285,698,849
Total liabilities	996,305,796	533,091,021
NET ASSETS:		
Without donor restrictions		
H. Lee Moffitt Cancer Center and Research Institute, Inc. and Subsidiaries	913,745,729	785,797,586
Noncontrolling interest	22,570,435	23,066,305
Total net assets without donor restrictions	936,316,164	808,863,891
With donor restrictions	107,622,694	113,510,762
Total net assets	1,043,938,858	922,374,653
Total liabilities and net assets	<u>\$ 2,040,244,654</u>	<u>\$ 1,455,465,674</u>

The accompanying notes are an integral part of these consolidated financial statements.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

For the years ended June 30,

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Patient service revenues	\$ 1,366,689,383	\$ 1,279,823,716
Other revenues, less provision for grant and other bad debts (2020 - \$11,877; 2019 - \$4,822,833)	252,407,189	190,963,890
Net assets released from restrictions and used for operating expenses	<u>36,329,939</u>	<u>38,421,601</u>
Total revenues and other support without donor restrictions	1,655,426,511	1,509,209,207
Expenses:		
Salaries, wages, and benefits	739,434,541	671,416,828
Faculty fees	9,895,972	9,619,453
Purchased services	149,301,414	127,798,236
Supplies	487,495,786	470,513,542
Other operating expenses	87,916,606	89,566,271
Depreciation and amortization	62,571,530	52,882,258
Interest	9,031,842	9,263,379
Total expenses	<u>1,545,647,691</u>	<u>1,431,059,967</u>
Income from operations	109,778,820	78,149,240
Nonoperating gains, net	<u>6,138,080</u>	<u>24,466,912</u>
Excess of revenues and gains over expenses and losses before tax	115,916,900	102,616,152
Income tax expense	<u>(71,296)</u>	<u>(7,134,919)</u>
Excess of revenues and gains over expenses and losses	115,845,604	95,481,233
Other changes:		
Net assets released from restrictions and used to purchase property, plant, and equipment	1,942,316	2,246,147
Net assets released from restrictions and used for payment of long-term debt	10,459,241	9,669,401
Grants received for reimbursement of property, plant, and equipment	11,510	73,256
Restricted investment income	(762,967)	(719,764)
Other	<u>(43,431)</u>	<u>2,250,034</u>
Increase in net assets without donor restrictions	127,452,273	109,000,307
Net assets with donor restrictions:		
Contributions and memorials	8,087,991	19,370,141
Grants and contracts with purpose restrictions	18,457,261	19,254,769
Investment income	762,967	719,764
Net assets released from purpose restrictions and used to purchase property, plant, and equipment	(1,942,316)	(2,246,147)
Net assets released from purpose restrictions and used for payment of long-term debt	(10,459,241)	(9,669,401)
Net assets released from purpose restrictions and used for payment of operating expenses	(30,781,602)	(31,587,790)
Net assets released from purpose restrictions and used for payment of interest	(4,082,705)	(3,718,350)
Net assets released from time restrictions and used for payment of operating expenses	(1,465,632)	(3,115,461)
Proceeds from the Cigarette Tax and Trust Fund	15,524,028	15,524,028
Interest earnings on proceeds from the Cigarette Tax and Trust Fund	3,519	4,687
Loss on collectible restricted pledges	(34,744)	(1,749,291)
Other	42,406	(121,633)
(Decrease) increase in net assets with donor restrictions	<u>(5,888,068)</u>	<u>2,665,316</u>
Increase in net assets	121,564,205	111,665,623
Net assets at beginning of year	<u>922,374,653</u>	<u>810,709,030</u>
Net assets at end of year	<u>\$ 1,043,938,858</u>	<u>\$ 922,374,653</u>

The accompanying notes are an integral part of these consolidated financial statements.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30,

	<u>2020</u>	<u>2019</u>
Operating activities and nonoperating gains:		
Increase in net assets	\$ 121,564,205	\$ 111,665,623
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:		
(Gain) loss on sale of property, plant, and equipment	(68,322)	14,786
Restricted contributions and restricted investment income	(24,378,505)	(35,618,620)
Contribution of unrestricted and restricted securities	234,403	763,850
Grants and contracts with purpose restrictions	(18,457,261)	(19,254,769)
Change in deferred income tax benefit	(2,154,726)	3,794,059
Grants received for reimbursement of property, plant, and equipment purchases	(11,510)	(73,256)
Unrealized losses (gains) on investments	10,054,017	(9,740,795)
Depreciation and amortization	62,571,530	52,882,258
Amortization of bond premium, discount and issuance costs	(2,158,607)	(2,228,105)
Provision for grant bad debts	11,877	4,822,833
Changes in operating assets and liabilities:		
Accounts receivable	581,888	(31,325,252)
Inventories	(11,030,300)	(3,151,566)
Grant receivables	(14,806,521)	(5,977,163)
Prepaid and other assets	6,020,222	(2,646,979)
Right of use asset - operating leases	(35,291,058)	
Pledges receivable	3,767,854	3,981,660
Accounts payable and accrued expenses	5,723,791	19,006,372
Accrued employee compensation	6,081,767	12,703,179
Accrued interest	(31,568)	(193,980)
Estimated third-party settlements	34,062,535	(17,054,562)
Income tax payable	714,062	-
Operating lease liability	41,781,301	-
Other liabilities	(19,773,172)	(7,264,933)
Net cash provided by operating activities and nonoperating gains	<u>165,007,902</u>	<u>75,104,640</u>
Investing activities:		
Purchases of property, plant, and equipment	(128,147,091)	(85,804,581)
Purchases of investments	(41,256,000)	(16,000,000)
Change in Avatar clinical and molecular data	(18,135,560)	(26,547,455)
Change in assets limited as to use	(392,981,186)	16,657,778
Net cash used in investing activities	<u>(580,519,837)</u>	<u>(111,694,258)</u>
Financing activities:		
Payments on long-term debt	(12,055,000)	(11,515,000)
Proceeds from issuance of long-term debt	422,127,400	-
Payments for debt financing costs	(3,177,065)	-
Restricted contributions and restricted investment income	24,378,505	35,618,620
Grants and contracts with purpose restrictions	18,457,261	19,254,769
Contribution of securities with purpose restrictions	409,915	493,916
Grants received for reimbursement of property, plant, and equipment purchases	11,510	73,256
Net cash provided by financing activities	<u>450,152,526</u>	<u>43,925,561</u>
Increase in cash and cash equivalents	34,640,591	7,335,943
Cash and cash equivalents at beginning of year	265,525,180	258,189,237
Cash and cash equivalents at end of year	<u>\$ 300,165,771</u>	<u>\$ 265,525,180</u>
Supplemental information:		
Capital expenditures accrued in accounts payable	\$ 5,578,178	\$ 3,884,852

The accompanying notes are an integral part of these consolidated financial statements.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - ORGANIZATION

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries (the Cancer Center), located in Tampa, Florida, was created by the Florida Legislature and incorporated on April 17, 1984, as a not-for-profit corporation, and is currently licensed to operate 218 general acute care beds. The Cancer Center's activities relate primarily to research in the areas of basic science, cancer prevention and control, translational science, pre-clinical and clinical investigations, and providing management and certain other support services as the sole corporate member and parent for the following subsidiary corporations:

- H. Lee Moffitt Cancer Center & Research Institute Hospital, Inc. (the Hospital) – The Hospital provides medical and hospital care, medical education, and training and clinical (patient-related) research in maintaining health and preventing, detecting, and treating cancer.
- H. Lee Moffitt Cancer Center & Research Institute Lifetime Cancer Screening Center, Inc. (the Screening Center) – The Screening Center is doing business as the Moffitt Medical Group (MMG), and operates as part of the Cancer Center's health care system by employing and managing physicians and other medical professionals who staff the Hospital and provide clinical research services to the Cancer Center.
- H. Lee Moffitt Cancer Center & Research Institute Foundation, Inc. (the Foundation) – The Foundation is the principal fund-raising organization for the Cancer Center and its subsidiaries.
- Moffitt Technologies Corporation (MTC) – MTC is a for-profit subsidiary of the Cancer Center that conducts technology management and commercialization activities for the Cancer Center, including intellectual property developed by the Cancer Center.
- OncoBay Clinical, Inc. (OncoBay Clinical) – OncoBay Clinical, formerly known as Immuno, Inc. is a for-profit subsidiary of the Cancer Center established in October 2019 as a contract research organization focused on accelerating immunotherapy research.

In addition, the Cancer Center is the controlling shareholder of the following subsidiary corporation:

- M2Gen, Corp. (M2Gen) is a for-profit subsidiary of the Cancer Center. M2Gen supports advancement of the Cancer Center's personalized medicine initiatives.

The consolidated financial statements include the accounts of the Cancer Center, the Hospital, MMG, the Foundation, MTC, OncoBay Clinical and M2Gen (collectively, the Cancer Center). All intercompany transactions and accounts have been eliminated in consolidation.

Mission Statement

The mission of the Cancer Center is to contribute to the prevention and cure of cancer. The Cancer Center is a leader in focused, innovative cancer research, a major regional oncology referral center, and an environment conducive for training future scientific and clinical leaders in oncology. The Cancer Center has been designated as a National Cancer Institute Comprehensive Cancer Center.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nonoperating Gains and Losses

The Cancer Center's revenues and other support include amounts generated from direct patient care, unrestricted appropriations from the State of Florida (the State), federal and nonfederal grants and contracts, and sundry revenues related to the operations of the Cancer Center's facilities. Activities that result in gains or losses unrelated to the Cancer Center's operations are considered to be nonoperating.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Nonoperating gains and losses primarily include investment income, dividends and realized and unrealized gains and losses on unrestricted investments, and gains and losses on disposals of assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in recording patient service revenue, estimated settlements with third party payers, useful lives of property, plant and equipment, self-insurance liabilities, and the reported fair values of certain assets and liabilities. Actual results could differ from those estimates.

Statements of Cash Flows

For the purposes of the consolidated statements of cash flows, the Cancer Center considers all highly liquid investments with a maturity of three months or less when purchased, except those classified as assets limited as to use, to be cash equivalents.

Estimated Third-Party Settlements

The Cancer Center is reimbursed on a cost basis for Medicare inpatient and outpatient services subject to certain limitations. The Cancer Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Cancer Center and audits by the Medicare fiscal intermediary. Regulations require annual retroactive cost reimbursement settlements for these amounts based upon annual cost reports. These retroactive cost settlements are estimated and recorded in the consolidated financial statements.

For services provided to Medicaid beneficiaries, the Cancer Center is reimbursed based on All Payor Related-Diagnostic Related Groups for inpatient services. As of July 1, 2017, Florida's Agency for Health Care Administration (AHCA) transitioned to a new Enhanced Ambulatory Group (EAPG) payment methodology for hospital outpatient services, which provides reimbursement for services on prospectively determined prices. The Florida Cancer Hospital Program (FCHP) was created to provide eligible hospitals, including the Cancer Center, an enhanced reimbursement for inpatient and outpatient hospital services. The Centers for Medicare and Medicaid Services (CMS) approved the State Plan Amendment (SPA) in March 2018, which authorized the supplemental payment plan. These payments are contingent upon the nonfederal share being provided through intergovernmental transfers.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Patient Service Revenues and Patient Accounts Receivable

Patient service revenues are recorded at the amounts that reflect the consideration to which the Cancer Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs, i.e., Medicare and Medicaid) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Patient service revenue increased by approximately \$2,784,000 and \$8,495,000 for the years ended June 30, 2020 and 2019, respectively, for adjustments to prior year estimated third-party settlements. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to customers.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Performance obligations are determined based on the nature of the services provided. The Cancer Center recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The Cancer Center believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Cancer Center measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The Cancer Center recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when (1) services are provided, and (2) when it is believed the patient does not require additional services. The Cancer Center determines estimates of contractual adjustments and discounts based on government regulations, contractual agreements, discount policies and historical experience, as applicable. The Cancer Center determines its estimate of implicit price concessions based on historical collection experience within each class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Patient revenues are recorded during the period the health care services are provided based upon the estimated amounts due from the patients and third-party payors. Third-party payors include federal and state agencies (under Medicare, Medicaid, and other programs), managed care health plans, and other private contractual agreements. Estimates of contractual adjustments under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts).

Patient service revenues from third-party payors and others for the years ended June 30, 2020 and 2019 are summarized in the following table:

	Years ended June 30,	
	2020	2019
Managed care	75.8%	69.8%
Medicare	23.6	25.6
Medicaid	3.1	3.1
Other/commercial/self-pay	(2.5)	1.5
Patient service revenues	100.0%	100.0%

For patient accounts receivable resulting from patient service revenue recognized prior to July 1, 2018, an allowance for doubtful accounts was established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, this allowance was based on the aging of accounts receivable, historical collection and write-off experience for each type of payor and other relevant factors. When there is an unconditional right to payment, subject only to the passage of time a receivable is recognized. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment (and estimated amounts due from third-party payors for retroactive adjustments) are considered receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due.

The estimated uncollectible amounts for patient accounts receivable are generally considered implicit price concessions and are a direct reduction to patient accounts receivable.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Excess of Revenues and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include the excess of revenues and gains over expenses and losses. Changes in net assets without donor restrictions that are excluded from the excess of revenues and gains over expenses and losses include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction, were to be used for the purposes of acquiring such assets), and contributions restricted for the payment of long-term debt.

Inventories

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

Risk Management and Self-Insurance

The Cancer Center is exposed to various risks from torts, thefts, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. The Cancer Center is insured for medical malpractice claims as described in Note 14.

The Cancer Center is self-insured for amounts up to specified levels for health, medical, and workers' compensation claims for its employees. The estimated liability for such self-insurance arrangements is the total estimated amounts to be paid for all known claims or incidents, and an estimate for incurred but not reported claims.

Fair Value of Certain Financial Instruments

The carrying amounts reported in the consolidated balance sheets for financial instruments classified as current assets and current liabilities approximate fair value because of the short-term maturity of these instruments.

Fair Value Measurements

Fair value is determined using assumptions that market participants would use to determine the price of an asset or liability as opposed to measurements determined based upon information specific to the entity holding those assets and liabilities. To determine those market participant assumptions, the Financial Accounting Standards Board (FASB) established a hierarchy of inputs that the entity must consider, including both independent market data inputs and the entities' assumptions about the market's participant assumptions. Investments that are valued using net asset value (NAV) as a practical expedient are excluded from this three-tier hierarchy. For all other investments measured at fair value, the hierarchy prioritizes the inputs used to measure fair value. The hierarchy is summarized as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets and liabilities as of the reporting date.
- Level 2 - Directly or indirectly observable inputs, other than quoted prices included in Level 1. Level 2 inputs may include, among others, interest rates and yield curves observable at commonly quoted intervals, volatilities, credit risks, and other inputs that are derived principally from or corroborated by observable market data by correlation or other means as of the reporting date.
- Level 3 - Unobservable inputs used when there is little, if any, market activity for the asset or liability at the measurement date. These inputs represent the entity's own assumptions about the assumptions that market participants would use to price the asset or liability developed using the best information available.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Cancer Center's Level 1 assets include investments in equity and U.S. Government agency securities, and are valued at the quoted market prices. The Cancer Center's Level 2 assets include investments in fixed income securities and are valued based upon directly or indirectly observable inputs. Transfers between levels in the hierarchy are recognized at the end of the reporting period.

The Cancer Center's long-term debt is valued based on quoted market prices for the same or similar issues for debt of the same remaining maturities (Level 2). The estimated fair value of the Cancer Center's long-term debt at June 30, 2020 and 2019 is approximately \$725,158,000 and \$306,345,000, respectively.

The following table summarizes the Cancer Center's significant financial assets, excluding those measured using NAV as a practical expedient, measured at fair value as of June 30, 2020 and 2019:

	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
	June 30, 2020			
Assets:				
Cash and cash equivalents	\$ 300,165,771	\$ 300,165,771	\$ -	\$ -
Assets limited as to use:				
Equity securities	247,074,194	247,074,194	-	-
Cash and cash equivalents	452,274,073	452,274,073	-	-
Fixed income securities	56,583,184	-	56,583,184	-
U.S. Government obligations	17,441,851	17,441,851	-	-
Total assets	<u>\$1,073,539,073</u>	<u>\$1,016,955,889</u>	<u>\$ 56,583,184</u>	<u>\$ -</u>
	June 30, 2019			
Assets:				
Cash and cash equivalents	\$ 265,525,180	\$ 265,525,180	\$ -	\$ -
Assets limited as to use:				
Equity securities	215,230,450	215,230,450	-	-
Cash and cash equivalents	73,925,568	73,925,568	-	-
Fixed income securities	45,077,525	-	45,077,525	-
U.S. Government obligations	20,334,143	20,334,143	-	-
Total assets	<u>\$ 620,092,866</u>	<u>\$ 575,015,341</u>	<u>\$ 45,077,525</u>	<u>\$ -</u>

The following table represents a reconciliation of financial instruments at fair value to the accompanying consolidated balance sheets as follows:

	June 30,	
	2020	2019
Cash, investments and assets limited as to use at fair value	\$ 1,073,539,073	\$ 620,092,866
Alternative investments at net asset value	28,826,438	24,093,203
Total	<u>\$ 1,102,365,511</u>	<u>\$ 644,186,069</u>

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Alternative Investments

The Cancer Center's investment policy provides for a diversified investment portfolio which considers risk, return, preservation and appreciation of capital as well as the Cancer Center's short-term and long-term liquidity needs. This policy allows participation in alternative investment funds (hedge and real estate funds). The hedge funds' principal investment objective is to achieve consistent, positive returns, while attempting to reduce risk and volatility. The real estate fund's objective is to outperform the NFI-ODCE Index over a full market cycle with a lower level of risk. Alternative investments often have liquidity restrictions under which the Cancer Center's capital may be divested only at specified times. The hedge funds were closed in December 2018. Liquidity restrictions may apply to all or portions of a particular invested amount. The real estate fund has quarterly liquidity subject to available cash flow. There were no unfunded commitments for these investments as of June 30, 2020 and 2019. Realized and unrealized gains and losses from these alternative investments are included in the nonoperating gains, net section of the consolidated statements of operations.

Alternative investments are classified as investments and assets limited as to use in the accompanying consolidated balance sheets.

Assets Limited as to Use

Assets limited as to use represent funds internally designated for program development and capital expenditures, funds externally designated by donors and under the terms of bond indentures, and funds from the State of Florida Cigarette Tax Trust Fund (Cigarette Tax). The Board of Directors (the Board) retains control over internally designated funds and may, at its discretion, use the funds for other purposes. Amounts required to meet current liabilities have been reclassified to current assets in the consolidated balance sheets.

Investments and Investment Income

Investments in debt and equity securities with readily determinable fair values are recorded at fair value in the consolidated balance sheets.

Investments without readily determinable fair values (collectively, "alternative investments") are accounted for based on NAV, a practical expedient, of each alternative investment. Financial information used by the Cancer Center to evaluate its alternative investments is provided by the investment manager and may include fair value valuations (quoted market prices and values determined through other means) of the underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not always coincide with the Cancer Center's financial statement reporting period.

Funds held by the bond trustee under indenture and from the Cigarette Tax are invested in cash and cash equivalents and are designated as other-than-trading investments. Investment securities are designated as trading investments.

Investment income is reported net of management fees, and includes interest and dividend income, as well as realized gains and losses on such investments. Investment income is reported as an increase in net assets without donor restrictions in the period earned, unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in net assets with donor restrictions in the period earned.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Liquidity and Availability of Resources

The Cancer Center's financial assets and resources available to meet cash needs for general expenditures within one year primarily consist of cash, patient accounts receivable, grant receivables and assets limited as to use that are internally designated as disclosed in the accompanying consolidated balance sheets. Excess cash is invested in accordance with the Board investment policy, and there are no investments with purchase commitments as of June 30, 2020. In addition to its liquid resources and cash provided by operating activities, the Cancer Center has \$5,000,000 of unused lines of credit (Note 6) for future operating needs.

As of June 30, 2020 and 2019 the Cancer Center's net working capital was approximately \$320,863,000 and \$326,076,000, respectively, which includes the assets limited as to use by Board designation.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at historical cost or fair market value, if donated, at the date of donation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. Interest cost incurred during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets. Expenditures that materially increase values, change capacity, or extend useful lives are capitalized.

The Cancer Center has under construction, or is planning construction projects, with remaining estimated costs to complete of approximately \$420,554,000 as of June 30, 2020, to be primarily funded by the bond proceeds described in Note 6 and additional bond proceeds expected in the future.

Contributed Resources

The Cancer Center reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction or implied time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from donor restrictions.

Unconditional promises to give with payments to be received in future periods are reported as contributions with donor restrictions in the period the pledge is made. If there are no purpose restrictions on the pledge, the net assets with donor restrictions are reclassified to net assets without donor restrictions in the period the payment is received. Conditional promises to give are recognized when the conditions on which they depend have been met.

State Appropriations

The Cancer Center receives annual appropriations from the State, which were approximately \$35,878,000 and \$36,691,000 for the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, a portion of the appropriation totaling \$7,680,011 and \$10,576,970, respectively, was redirected to be used as state matching funds for the Cancer Center's participation in the Low Income Pool, and received by the Cancer Center as enhanced Medicaid funding. These annual appropriations are recorded as other revenues in the accompanying consolidated statements of operations and changes in net assets.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Beginning January 1, 1999, and continuing for 10 years thereafter, the Cancer Center received an approximate aggregate minimum of \$100,000,000 from the Cigarette Tax. Additionally, beginning July 1, 2002 and continuing through June 30, 2014, an additional amount was received from the Cigarette Tax aggregating \$64,000,000 as a result of extensions and increases from the State in 2002, 2009, and 2012. During the year ended June 30, 2014, the State enacted legislation increasing the appropriation from 2.75% to 4.04%, for the period July 1, 2014 through June 30, 2033 to approximately \$297,000,000. During the year ended June 30, 2017, the State amended the appropriation to extend the act through June 30, 2053 for an additional amount of approximately \$310,000,000.

From January 1, 1999, and continuing through June 30, 2013, the Cigarette Tax funds were to be used for the purposes of constructing, furnishing, and equipping a cancer center research facility (research tower) at the university adjacent to the Cancer Center, as well as for the repayment of the debt incurred for the research tower. As of July 1, 2013, the Cigarette Tax funds are to be used for the purposes of constructing, furnishing, equipping, financing, operating, and maintaining cancer research and clinical and related facilities and other properties owned or leased by the Cancer Center, as well as for the repayment of the debt incurred for the Series 2012A bonds with additional bonds issued for the Series 2016A and Series 2020A. No receivable is recorded as of June 30, 2020 or 2019 in the accompanying consolidated balance sheets for the proceeds from the Cigarette Tax related to the period July 1, 2018 to June 30, 2053, as the amounts are subject to future legislative support from the State. For each of the years ended June 30, 2020 and 2019, the Cancer Center received approximately \$15,524,000 from the Cigarette Tax proceeds and applicable earnings. These amounts are recorded as both other operating revenue and increases in net assets with donor restrictions for the years ended June 30, 2020 and 2019.

Deferred Financing Costs

Deferred financing costs are included as a reduction of long-term debt and are amortized over the remaining lives of the financing.

Bond Premium and Discount

Bonds payable are included in long-term debt, net of related original issue premium and discount. Such premiums and discounts are being amortized over the life of the bonds.

Income Taxes

The Cancer Center, the Hospital, the Moffitt Medical Group, and the Foundation have been recognized by the Internal Revenue Service as tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code of 1986, and are exempt from federal and state taxes on related income pursuant to the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively. Moffitt Technologies Corp., M2Gen and Oncobay Clinical are corporations subject to income tax. With respect to its for-profit entities, as well as any unrelated business income generated by the tax exempt entities, the Cancer Center records income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between financial accounting and tax bases of assets and liabilities and are measured using the currently enacted tax rate and laws applicable in the period that the deferred tax asset or liability is expected to be realized or settled.

For the years ending June 30, 2020 and 2019, M2Gen had a net operating loss carryforward of approximately \$21,000,000 and \$12,000,000, respectively. In addition, the Cancer Center generated unrelated business income from certain activities during 2020 and 2019 which resulted in tax expense of approximately \$2,400,000 and \$3,300,000, respectively.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

M2Gen has a deferred tax asset of approximately \$5,000,000 which primarily relates to cumulative net operating losses. The realization of a deferred tax asset is based upon available evidence, both positive and negative, including current results of operations and projected future taxable income. A valuation allowance is provided when it is more likely than not that all or some portion of a deferred tax asset will not be realized. Based on management's assessment, a partial valuation allowance of \$2,800,000 was recorded with respect to the deferred tax asset at June 30, 2020, since there is uncertainty whether that portion of net operating losses will be utilized against future taxable income. Based on the CARES Act, enacted in 2020, which allows net operating losses to be applied to prior taxable income, M2Gen was able to release approximately \$2,200,000 of its valuation allowance.

Community Benefit

Since its inception and in accordance with its mission, the Cancer Center has been dedicated to improving community health and to collaborating with other community members to provide comprehensive care through an array of health programs and education, health services, and medical research for the uninsured and underinsured. Community benefit projects and services provided by the Cancer Center are identified through health assessments and strategic and/or clinical priorities. Community benefit categories include community benefit services, traditional charity care, and unpaid charges for government programs. The community benefit services include health care programs for the underserved in the community, including services such as health screenings, preventive care, and health education programs.

The Cancer Center provides care to patients who meet criteria under established charity care policies without charge or at amounts less than its established rates. The Cancer Center does not pursue collection of amounts determined to qualify as charity care, and they are not reported as revenue. Charity care is reported based upon criteria established by the Cancer Center and the State of Florida Agency for Health Care Administration. The estimated costs of providing the charity care were approximately \$33,705,000 and \$32,648,000 for the years ended June 30, 2020 and 2019, respectively. The Cancer Center also provides services to indigent patients who meet criteria established by Medicaid and other governmental programs at amounts that are less than its established rates.

The Cancer Center maintains records to identify and monitor the level of subsidized government indigent care it provides. The estimated costs of providing these services were \$11,950,000 and \$18,900,000 for the years ended June 30, 2020 and 2019, respectively. The estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies, and other operating expenses) were based on a calculation that multiplied the percentage of the selected operating expenses identified above to gross charges by the gross charity care or indigent care amount.

In addition to the charity and indigent care services noted above, an assessment of 1.0% to 1.5% of certain operating revenues is paid by the Cancer Center to help fund the Florida Medicaid and indigent care program. These assessments were approximately \$12,936,000 and \$13,027,000 for the years ended June 30, 2020 and 2019, respectively.

Licensing Revenue

The Cancer Center, through its majority owned subsidiary corporation, M2Gen, derives revenue primarily from the licensing of access to clinical and molecular data through its Avatar Platform in both raw and processed form. The licensing contracts range from three to four years in duration, with varying payment terms. Generally, the annual cost of the license is paid at the beginning of the license period and amortized over time. Certain contracts have a payment term based on the delivery of data to the Avatar Platform. In those cases, the payments received based on contractual milestones are deferred and amortized to revenue over the remaining term of the license agreement.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Cancer Center has concluded that each of its license agreements contain one performance obligation for the overall access to the Avatar Platform data. Revenue from licensing access to the Avatar Platform is recognized either at a point in time or over time, depending on the nature of the licensing agreement and when control is transferred to the customer.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* and its amendments which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike prior U.S. GAAP, which required only capital leases to be recognized on the balance sheet, ASU 2016-02 requires both types of leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements.

The Cancer Center adopted ASU 2016-02 on July 1, 2019, utilizing the modified retrospective method upon adoption. This resulted in the recognition of a right of use asset for operating lease liabilities and corresponding lease liability of approximately \$29,000,000 upon the adoption date.

The Cancer Center elected certain practical expedients available under the transition provisions to (i) allow aggregation of non-lease components with the related lease components when evaluating accounting treatment, (ii) apply the modified retrospective adoption method, utilizing the simplified transition option, which allows the Cancer Center to continue to apply the legacy guidance in FASB Accounting Standards Codification Topic 840, including its disclosure requirements, in the comparative periods presented in the year of adoption, and (iii) use hindsight in determining the lease term (that is, when considering the Cancer Center's options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the Cancer Center's right-of-use assets.

The adoption of ASU 2016-02 also required the Cancer Center to include any initial direct costs, which are incremental costs that would not have been incurred had the lease not been obtained, in the right-of-use assets. The recognition of these costs in connection with the adoption of this guidance did not have a material impact on the Cancer Center's consolidated financial statements.

NOTE 3 - SUBSEQUENT EVENTS

The Cancer Center has evaluated subsequent events for the year ended June 30, 2020 through September 21, 2020, the date the consolidated financial statements were issued.

In July 2020, the Cancer Center's existing \$5,000,000 line of credit was extended for one month. On August 31, 2020, the line of credit agreement was increased to \$40,000,000 to meet strategic and working capital needs with a maturity date of August 30, 2021. The agreement is secured by an obligation under the Master Trust Indenture and includes requirements to maintain a minimum debt service coverage ratio and certain level of days cash on hand.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 4 - ASSETS LIMITED AS TO USE

The composition of assets limited as to use, stated at fair value, is set forth in the following table:

	June 30,	
	2020	2019
Cash and cash equivalents:		
Money market funds	\$ 452,274,073	\$ 73,925,568
Fixed income securities:		
Corporate debt securities	40,343,207	28,598,703
Mortgage-backed securities	8,996,888	7,637,604
Asset-backed securities	7,243,089	8,841,218
Equity securities	247,074,194	215,230,450
U.S. Government obligations	17,441,851	20,334,143
Alternative investments	28,826,438	24,093,203
	<u>802,199,740</u>	<u>378,660,889</u>
Less current portion	<u>(16,404,914)</u>	<u>(21,816,343)</u>
Total	<u>\$ 785,794,826</u>	<u>\$ 356,844,546</u>

Assets limited as to use are designated as follows:

	June 30,	
	2020	2019
Investment securities:		
Internally designated	\$ 289,388,272	\$ 244,205,758
Donor restricted	75,384,484	74,000,217
Held by bond trustee under indenture:		
Construction fund	410,966,695	33,652,349
Principal fund	10,275,716	9,843,312
Interest fund	4,773,152	5,053,094
Cost of issuance fund	363,772	-
Administrative fund	7,249	3,610
Revenue allocation fund	1,356,046	6,919,937
	<u>427,742,630</u>	<u>55,472,302</u>
Cigarette tax	9,684,354	4,982,612
	<u>802,199,740</u>	<u>378,660,889</u>
Less current portion	<u>(16,404,914)</u>	<u>(21,816,343)</u>
Total	<u>\$ 785,794,826</u>	<u>\$ 356,844,546</u>

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Contributions received from donors and the State for a specific time period or purpose are reported as net assets with donor restrictions. Such net assets are available for the following purposes:

	June 30,	
	2020	2019
Research and education	\$ 67,926,806	\$ 75,402,163
Operations	5,324,002	8,365,678
Patient care	6,028,246	6,172,158
Cigarette tax	9,684,353	4,982,612
Financial aid for employees	40,201	33,616
	<u>\$ 89,003,608</u>	<u>\$ 94,956,227</u>

In addition, endowment contributions received from donors which are required to be held in perpetuity are reported as net assets with donor restrictions, the income from which is expendable for the following purposes:

	June 30,	
	2020	2019
Investment in perpetuity, the income from which is expendable to support:		
Research and education	\$ 16,573,311	\$ 16,009,095
Patient care	1,421,771	1,921,436
Operations	624,004	624,004
	<u>\$ 18,619,086</u>	<u>\$ 18,554,535</u>

Net asset classification of donor-restricted endowment funds for not-for-profit (NFP) organizations subject to a State-enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006. The Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) enhances provisions of FUMIFA; applies to all charitable institutions, not just those associated exclusively with education purposes; allows pooling for institutional funds for purposes of managing and investing; delineates factors to be considered prior to expenditures of funds; provides new procedures for releasing restrictions on small institutional funds; provides for modification of restrictions on the use of endowment funds; and provides for reversion of real property to the Board of Trustees of the State of Florida Internal Improvement Trust Fund if an entity holding a deed subject to a reverter clause violates the deed restrictions.

The following disclosures are made as required by these rules:

The Cancer Center endowment consists of 25 individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

FUPMIFA requires the Board to use reasonable care, skill, and caution, as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FUPMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established consistent with the goal of conserving the long-term purchasing power of the endowment fund.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

In accordance with FUPMIFA, the Cancer Center considered the following factors in making a determination to distribute or accumulate donor-restricted funds:

- (1) The duration and preservation of fund
- (2) The purposes of the Cancer Center and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Cancer Center
- (7) The investment policies of the Cancer Center

As a result of this interpretation, the Cancer Center classifies as net assets with donor restrictions held in perpetuity (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Cancer Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Cancer Center must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to conservatively appreciate capital by emphasizing total return, net of inflation, and investment management costs over the long-term.

To satisfy its long-term rate-of-return objectives, the Cancer Center relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) plus dividend and interest income. The Cancer Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The Cancer Center has a policy of appropriating for distribution each year 4% of its endowment fund's 12-month moving average market value at June 30 annually. In establishing this policy, the Cancer Center considered the long-term expected return on its endowment.

Accordingly, over the long term, the Cancer Center expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Cancer Center's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of FUPMIFA requires the Cancer Center to retain as a fund of perpetual duration.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following is a summary of changes in endowment net assets for the years ended June 30, 2020 and 2019:

	Without Donor Imposed Restrictions	With Donor Imposed Restrictions	Total
Endowment net assets, June 30, 2018	\$ 7,094,183	\$16,501,439	\$ 23,595,622
Investment income	404,388	-	404,388
Net appreciation (realized and unrealized)	703,140	-	703,140
Contributions and memorials	-	2,053,096	2,053,096
Appropriation of endowment assets for expenditure	(946,091)	-	(946,091)
Appropriation of endowment interest	629,764	-	629,764
Endowment net assets, June 30, 2019	<u>7,885,384</u>	<u>18,554,535</u>	<u>26,439,919</u>
Investment income	380,954	-	380,954
Net depreciation (realized and unrealized)	(99,667)	-	(99,667)
Contributions and memorials	-	64,551	64,551
Appropriation of endowment assets for expenditure	(1,004,029)	-	(1,004,029)
Appropriation of endowment interest	672,967	-	672,967
Endowment net assets, June 30, 2020	<u>\$ 7,835,609</u>	<u>\$18,619,086</u>	<u>\$ 26,454,695</u>

NOTE 6 - LONG-TERM DEBT

The Cancer Center is obligated under long-term debt as follows:

	June 30,	
	2020	2019
Capital Improvement Hospital Revenue Bonds, Series 2010AC, includes serial bonds in varying amounts from September 1, 2019 to September 1, 2030, plus interest at variable rates as defined (1.03% and 2.58% at June 30, 2020 and 2019, respectively), including unamortized issuance costs of \$175,784 and \$193,074 at June 30, 2020 and 2019, respectively.	\$ 13,654,216	\$ 14,721,926
Refunding and Capital Improvement Cigarette Tax Allocation Bonds, Series 2012A, including \$67,905,000 in serial bonds due in varying amounts from September 1, 2019 to September 1, 2029, at fixed interest rates ranging from 3.125% to 5.00%, and \$35,360,000 of term bonds at a fixed interest rate of 4.00% due September 1, 2033, including unamortized net original premium and issuance costs of \$5,074,564 and \$5,869,108 at June 30, 2020 and 2019, respectively.	108,339,564	114,329,108
Hospital Revenue Refunding Bonds, Series 2012B, including \$25,120,000 in serial bonds due in varying amounts from July 1, 2019 to July 1, 2032, at fixed interest rates ranging from 3.75% to 5.00%, including unamortized net original premium and issuance costs of \$938,106 and \$1,166,214 at June 30, 2020 and 2019, respectively.	26,058,106	28,161,214

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

	June 30,	
	2020	2019
Capital Improvement Cigarette Tax Allocation Bonds, Series 2016A, including \$34,735,000 in serial bonds due in varying amounts from September 1, 2019 to September 1, 2030, at fixed interest rates ranging from 5.00% to 5.50%, and \$12,365,000 of term bonds at a fixed interest rate of 3.25% due September 1, 2033, including unamortized net original premium and issuance costs of \$3,982,876 and \$4,605,719 at June 20, 2020 and 2019, respectively.	\$ 51,082,876	\$ 54,025,719
Hospital Revenue Refunding Bonds, Series 2016B, including \$32,365,000 in serial bonds due in varying amounts from July 1, 2019 to July 1, 2031, at fixed interest rates ranging from 3.125% to 5.00%, and \$45,065,000 of term bonds at a fixed interest rate of 5.00% due July 1, 2037, including unamortized net original premium and issuance costs of \$6,995,827 and \$7,505,882 at June 30, 2020 and 2019, respectively.	84,425,827	86,515,882
Capital Improvement Cigarette Tax Allocation Bonds, Series 2020A, including \$68,486,552 in capital appreciation bonds with serial bonds due in varying amounts from September 1, 2033 to September 1, 2042, at interest rates ranging from 3.550% to 4.050%, term bonds of \$16,705,036 at an interest rate of 4.080% due September 1, 2045, term bonds of \$19,139,897 at an interest rate of 4.120% due September 1, 2049 and term bonds of \$15,647,450 at an interest rate of 4.180% due September 1, 2053, including unamortized net original discount of \$473,917 and issuance costs of \$610,339 at June 30, 2020.	118,894,679	-
Hospital Revenue Bonds, Series 2020B, including \$79,385,000 in serial bonds due in varying amounts from July 1, 2021 to July 1, 2040, at fixed interest rates ranging from 3.00% to 5.00%, term bonds of \$80,455,000 at a fixed interest rate of 4.00% due July 1, 2045 and term bonds of \$100,860,000 at a fixed interest rate of 5.00% due July 1, 2050, including unamortized net original premium of \$40,398,353 and issuance costs of \$1,063,044 at June 30, 2020.	300,035,309	-
	702,490,577	297,753,849
Less current portion	(12,645,000)	(12,055,000)
	\$ 689,845,577	\$ 285,698,849

In September 2010, the Cancer Center issued \$22,000,000 in Hospital Revenue Bonds, Series 2010A (2010 Bonds), for construction, renovation, and equipping of the new Moffitt at International Plaza location. The 2010 Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. Under the terms of the indenture, the Cancer Center is required to maintain a minimum debt service coverage ratio. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2020, the Cancer Center is in compliance with these requirements.

In September 2012, the Cancer Center issued additional Cigarette Tax Bonds, Series 2012A, in the amount of \$132,310,000, and refunded the existing Series 2002A and Series 2002B Cigarette Tax Bonds. The additional Cigarette Tax Bonds were issued for the construction and equipping of a multistory clinical and research facility, as well as the construction and equipping of clinical and research facilities, including additional bed capacity, operating suites, and associated facilities and infrastructure. The Cigarette Bonds are secured under the Indenture that provides for, among other things, a security interest in the annual

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

collections from the Cigarette Tax Trust Fund as discussed in Note 2. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2020, the Cancer Center is in compliance with these requirements.

In November 2012, the Cancer Center issued \$36,635,000 in Revenue Bonds, Series 2012B (2012B Bonds). The proceeds were used to refinance the existing Series 1999A and Series 2002C Revenue Bonds in order to achieve cost savings based on the current economic environment. The 2012B Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. Under the terms of the Indenture, the Cancer Center is required to maintain a minimum debt service coverage ratio. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2020, the Cancer Center is in compliance with these requirements.

In October 2015, the Cancer Center refunded the existing Series 2010A Hospital Revenue Bond (Original 2010A Bond) to achieve net present value savings and an extended put date. The Original 2010A Bond as issued on September 8, 2010 had an original principal amount of \$22,000,000, of which \$18,440,000 was outstanding at the time of refunding. This refunding was issued in two sub-series of replacement bonds in the amount of \$9,750,000 (Replacement Series 2010A Bond) and \$8,690,000 (Replacement Series 2010B Bond). On October 22, 2015, the Replacement Series 2010B Bond issued on October 6, 2015 was replaced and retired concurrently with the issuance of Replacement 2010C Bond in the full amount of \$8,690,000. The 2010AC Replacement Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. The Indenture also provides for limitations on additional indebtedness and transfer of operating assets, unrestricted cash, and marketable securities. The terms of the Indenture were reaffirmed and remain the same. At June 30, 2020, the Cancer Center is in compliance with these requirements.

In November 2016, the Cancer Center issued additional Cigarette Tax Bonds, Series 2016A (2016A Bonds) in the amount of \$51,885,000. The 2016A Bonds were issued for the construction and equipping of a clinical support facility, the relocation of a child care center, as well as the retrofitting of existing hospital facilities and clinic operations floors and various facilities, clinical support equipment and infrastructure. The 2016A Bonds are secured under the Indenture that provides for, among other things, a security interest in the annual collections from the Cigarette Tax Trust Fund as discussed in Note 2. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2020, the Cancer Center is in compliance with these requirements.

In November 2016, the Cancer Center issued \$83,945,000 in Hospital Revenue Refunding Bonds, Series 2016B (2016B Bonds). The proceeds were used to refinance the existing Series 2007A Hospital Revenue Bonds in order to achieve cost savings based on the current economic environment. The 2016B Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. Under the terms of the Indenture, the Cancer Center is required to maintain a minimum debt service coverage ratio. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2020, the Cancer Center is in compliance with these requirements.

In June 2020, the Cancer Center issued additional Cigarette Tax Bonds, Series 2020A (2020A Bonds) in the amount of \$119,978,935 through capital appreciation bonds. The 2020A Bonds were issued to pay certain costs associated with the construction, equipping, furnishing improvement and equipping of various medical and research facilities including a hospital expansion project and various facilities, infrastructure support, equipment, furnishings, backfill and refurbishment projects. The 2020A Bonds are secured under the Indenture that provides for, among other things, a security interest in the annual collections from the Cigarette Tax Trust Fund as discussed in Note 2 related to the appropriation amendment that extended the Act through 2053. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2020, the Cancer Center is in compliance with these requirements.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

In June 2020, the Cancer Center issued \$260,700,000 in Hospital Revenue Bonds, Series 2020B (2020B Bonds). The proceeds will be used for the construction, equipping, furnishing and improvement of various medical and research facilities capital projects including a hospital expansion project and various facilities, infrastructure support, equipment, furnishings, backfill and refurbishment projects. The 2020B Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. Under the terms of the Indenture, the Cancer Center is required to maintain a minimum debt service coverage ratio. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2020, the Cancer Center is in compliance with these requirements.

Maturities of long-term debt as of June 30, 2020, are as follows:

2021	\$ 12,645,000
2022	14,345,000
2023	15,035,000
2024	15,750,000
2025	16,510,000
Thereafter	<u>573,138,936</u>
	647,423,936
Plus unamortized net premium and issuance costs	<u>55,066,641</u>
	<u>\$ 702,490,577</u>

For the years ended June 30, 2020 and 2019, the Cancer Center incurred interest expense of approximately \$9,032,000 and \$9,263,000, respectively, and paid interest of approximately \$10,081,000 and \$10,613,000, respectively. Interest capitalized was approximately \$1,192,000 (interest costs of approximately \$1,366,000 net of capitalized interest income of approximately \$174,000) and \$836,000 (interest costs of approximately \$1,518,000 net of capitalized interest income of approximately \$682,000) for the years ended June 30, 2020 and 2019, respectively.

At June 30, 2020 and 2019, the Cancer Center had a \$5,000,000 line of credit for short-term working capital needs and a maturity date of July 2020 with optional renewal. Interest is based upon one-month LIBOR. Under the terms of the line of credit agreement, the Cancer Center is required to maintain a minimum debt service coverage ratio and a certain level of unrestricted net assets. At June 30, 2020, the Cancer Center is in compliance with these requirements. There was no outstanding balance under the line of credit at June 30, 2020 and 2019.

During the year ended June 30, 2019, the Cancer Center entered into an irrevocable standby letter of credit for certain building leasehold improvements. The letter of credit had an expiration date of June 18, 2020 with a not to exceed amount of \$10,000,000, which was decreased to \$5,000,000 with a renewed expiration date of June 18, 2021.

During the year ended June 30, 2020, the Cancer Center entered into two irrevocable standby letters of credit related to the purchase of land for future expansion opportunities. These two letters of credit have an expiration date of February 4, 2021 with a not-to-exceed amount of \$15,500,000.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 7 - OPERATING LEASES

The Cancer Center adopted ASU 2016-02, *Leases* (Topic 842), which requires leases with durations greater than 12 months to be recognized on the balance sheet, effective July 1, 2019, using the modified retrospective method. Prior period consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. The Cancer Center elected the package of transition provisions available which allowed the Cancer Center to carry forward its historical assessments of whether contracts are or contain leases, the lease classification, and the treatment of initial direct costs.

The Cancer Center has operating and finance leases primarily for space and equipment. The leases have remaining lease terms of less than one year to approximately 17 years, some of which include options to extend or terminate the lease term. The Cancer Center determines if an arrangement is a lease at inception. Operating leases are included in the consolidated balance sheets as a right of use ("ROU") - operating leases asset, Current portion of operating lease liability and Operating Lease Liability, Net of Current Portion. Finance leases are included in the consolidated balance sheets as Property, Plant and Equipment and Other Liabilities.

ROU assets represent the Cancer Center's right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized on the commencement date of the lease based on the present value of the lease payments over the lease term. Variable lease payments that depend on an index or rate include the variable portion when calculating ROU assets and lease liabilities. Variable lease payments that do not depend on an index or rate are expensed as incurred. As most of the leases do not provide an implicit rate, an incremental borrowing rate is used to determine the present value of lease payments. The implicit rate is used when readily determinable. The operating lease ROU assets include any lease payments made and lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain at time of commencement that it will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

While the Cancer Center has lease agreements with lease and non-lease components, they are accounted for as a single lease component. The components of lease expense were as follows:

Operating lease cost	\$ 13,759,852
Finance lease cost	
Amortization of ROU assets	\$ 369,051
Interest on lease liabilities	<u>130,445</u>
 Total finance lease cost	 <u>\$ 499,496</u>

Lease payments made for short-term leases where terms are 12 months or less are recognized as payments are incurred. Short-term lease cost for the year ended June 30, 2020 was \$2,366,000.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Supplemental balance sheet information related to leases is as follows:

Operating leases:

Operating lease right-of-use asset	\$ 35,291,058
Current operating lease liability	9,936,847
Operating lease liability, less current portion	<u>31,844,454</u>
Total operating lease liability	<u>\$ 41,781,301</u>

Finance leases:

Property, plant and equipment, at cost	\$ 1,880,000
Accumulated depreciation	<u>(846,000)</u>
Property, plant and equipment, net	<u>\$ 1,034,000</u>
Current finance lease liability	\$ 1,717,955
Finance lease liability, less current portion	<u>65,274</u>
Total finance lease liability	<u>\$ 1,783,229</u>

Weighted Average Remaining Lease Term (in years):

Operating leases	5.44
Finance leases	10.84

Weighted Average Discount Rate:

Operating leases	2.84%
Finance leases	2.44%

Supplemental cash flow information related to leases is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 11,663,493
Operating cash flows from finance leases	53,511
Financing cash flows from finance leases	-

Commitments for noncancelable operating and finance leases with terms in excess of one year are as follows:

	Operating Leases	Finance Leases
2021	\$ 11,140,045	\$ 65,274
2022	8,320,469	78,621
2023	6,376,802	93,757
2024	6,270,776	110,912
2025	4,991,198	130,347
Thereafter	<u>8,607,984</u>	<u>1,304,318</u>
	45,707,274	1,783,229
Less: Imputed interest	<u>(3,925,973)</u>	-
	<u>\$ 41,781,301</u>	<u>\$ 1,783,229</u>

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 8 - RETIREMENT AND HEALTH PLAN

The Cancer Center has a defined contribution benefit plan (the Plan) covering substantially all its employees with contributions to retirement accounts that are made through a matching contribution formula. Employee forfeitures are used to reduce the Cancer Center's required contribution to the Plan. The total retirement costs under the Plan, net of forfeitures, were approximately \$28,411,000 and \$26,658,000 for the years ended June 30, 2020 and 2019, respectively.

The Cancer Center has an employee health benefit plan covering substantially all health costs for eligible employees and their dependents, including self-insurance coverage for amounts up to specified levels. Health claims expense was approximately \$53,136,000 and \$45,164,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 9 - NONOPERATING GAINS (LOSSES), NET

Nonoperating gains, net, consist of the following:

	For the years ended June 30,	
	2020	2019
Interest income and dividends	\$ 9,692,354	\$ 10,470,895
Net unrealized and realized investment (loss) gain	(2,918,818)	14,367,191
Gain (loss) on sale of property, plant, and equipment	68,322	(14,786)
Other	(703,778)	(356,388)
	<u>\$ 6,138,080</u>	<u>\$ 24,466,912</u>

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Cancer Center grants credit without collateral to its patients, most of whom are from the greater Tampa Bay area and are insured under third-party payor agreements. The Cancer Center does not charge interest on patient accounts receivable. Patient accounts receivable included approximately \$123,690,000, or 76%, and \$120,993,000, or 74%, due from managed care payors, and approximately \$22,707,000, or 14%, and \$21,520,000, or 13%, due from the Medicare program at June 30, 2020 and 2019, respectively. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services. Patient accounts receivable are reported net of implicit price concessions in the accompanying consolidated balance sheets.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 11 - PLEDGES RECEIVABLE

Outstanding pledges receivable from various corporations, foundations, and individuals are as follows:

	June 30,	
	2020	2019
Pledges due:		
In less than one year	\$ 3,203,850	\$ 5,213,763
Greater than one year	5,828,483	7,772,688
	9,032,333	12,986,451
Discounts on pledges greater than one year	(544,106)	(730,370)
Allowance for uncollectible pledges	(200,000)	(200,000)
	8,288,227	12,056,081
Less current portion	(3,203,850)	(5,213,763)
	<u>\$ 5,084,377</u>	<u>\$ 6,842,318</u>

At June 30, 2020 and 2019, approximately \$1,940,000 and \$3,020,000, respectively, of gross pledges receivable are due from members and officers of the Board of Directors of the Cancer Center and its subsidiaries.

NOTE 12 - OTHER FUNDING SOURCES

Grant monies received and disbursed by the Cancer 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 Cancer Center does not believe that such disallowances, if any, would have a material effect on the financial position of the Cancer Center.

NOTE 13 - AFFILIATED ORGANIZATIONS

The Cancer Center is affiliated with the University of South Florida (the University) through an affiliation agreement whereby the Cancer Center and its subsidiaries agree to participate as an affiliated teaching hospital of the University, and to permit the use of the facilities and access to its programs and patients by University faculty, resident physicians, and students for mutually approved patient care, training, education, and research programs and activities. The amounts charged to the Cancer Center for transactions with the University may not necessarily result in the net costs that would be incurred by the Cancer Center on a stand-alone basis.

The Cancer Center leases a portion of its property, plant, and equipment under a sublease agreement (Sublease) with the Florida Board of Education through January 21, 2073, as amended. Under the terms of the Sublease, the Cancer Center is authorized to use the property, plant, and equipment only for the construction, maintenance, and operations of a cancer diagnosis, treatment, and education and research facility. The title to the property, plant, and equipment is held by the state of Florida, and at the expiration of the lease term, shall automatically vest with the Florida Board of Education.

The Cancer Center has other agreements with the University to purchase utility services, to lease parking spaces, and to provide maintenance, cleaning, environmental, water and other services to the University. During 2020 and 2019, the Cancer Center paid the University approximately \$12,281,000 and \$10,853,000, respectively, and received approximately \$1,800 during 2019 in connection with these agreements.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

During the years ended June 30, 2020 and 2019, the Cancer Center had agreements with the University to provide professional and support staff, along with other services, at the Cancer Center. These services included research, medical education, administrative, and patient care services. The following amounts were paid in relation to these agreements:

	For the years ended June 30,	
	2020	2019
Faculty salaries	\$ 9,896,000	\$ 9,619,000
Other support	705,000	878,000

Amounts due to the University are as follows:

	2020	2019
Due to (included in accounts payable and accrued expenses)	\$ (752,000)	\$ (883,000)

The University of South Florida Foundation, Inc. (the USF Foundation), a Direct Support Organization of the University, controls certain funds for the benefit of the Cancer Center. The income from these funds is distributed to the Cancer Center as determined by the USF Foundation's Board of Directors. Approximately \$6,424,000 and \$6,455,000 of investments at June 30, 2020 and 2019, respectively, are held by the Foundation for the dual benefit of the Cancer Center and the University. Such amounts are not included in these consolidated financial statements.

NOTE 14 - PROFESSIONAL LIABILITY AND OTHER CONTINGENCIES

The Cancer Center's program of professional liability coverage is a claims-made commercial insurance policy. The Cancer Center is liable for specified retention amounts under the coverage and claim amounts in excess of retention limits are payable by the commercial insurance carriers. Also, the Cancer Center is statutorily provided sovereign immunity pursuant to Chapter 768.26 of the *Florida Statutes*.

Losses from asserted and unasserted claims identified under the Cancer Center's incident reporting system are accrued based on estimates that incorporate the Cancer Center's past experience, as well as other considerations, including the nature of each claim or incident, and relevant trend factors based on actuarially determined amounts. Accruals for possible losses attributable to incidents that may have occurred but have not been identified under the incident reporting system have been made based upon the Cancer Center's experience and industry data. In the accompanying consolidated balance sheets, accrued expenses and other liabilities include \$2,515,000 and \$2,641,000 for professional liability reserves as of June 30, 2020 and 2019, respectively.

The Cancer Center may be liable for potential losses in excess of the amount recorded at June 30, 2020 and 2019; however, in management's opinion, such losses, if any, would not have a material adverse effect on the consolidated financial position or results of operations of the Cancer Center.

From time to time, the Cancer Center is subject to other asserted claims, and is aware of other unasserted matters that might be asserted at a later date. In the opinion of management, the resolution of all such matters would not have a significant impact on the Cancer Center's consolidated financial position, results of operations or cash flows.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 15 - FUNCTIONAL EXPENSES

Costs incurred by the Cancer Center in furtherance of its mission to contribute to the prevention and cure of cancer are as follows:

	For the year ended June 30, 2020		
	Program Services	General and Administrative	Total
Salaries, wages and benefits	\$ 726,055,750	\$ 13,378,791	\$ 739,434,541
Faculty fees	9,832,318	63,654	9,895,972
Purchased services	138,628,677	10,672,737	149,301,414
Supplies	487,411,325	84,461	487,495,786
Other operating expenses	86,311,844	1,604,762	87,916,606
Depreciation and amortization	62,571,530	-	62,571,530
Interest	9,031,842	-	9,031,842
	<u>\$ 1,519,843,286</u>	<u>\$ 25,804,405</u>	<u>\$ 1,545,647,691</u>

	For the year ended June 30, 2019		
	Program Services	General and Administrative	Total
Salaries, wages and benefits	\$ 659,711,570	\$ 11,705,258	\$ 671,416,828
Faculty fees	9,574,453	45,000	9,619,453
Purchased services	122,413,411	5,384,825	127,798,236
Supplies	470,410,388	103,154	470,513,542
Other operating expenses	88,205,024	1,361,247	89,566,271
Depreciation and amortization	52,882,258	-	52,882,258
Interest	9,263,379	-	9,263,379
	<u>\$ 1,412,460,483</u>	<u>\$ 18,599,484</u>	<u>\$ 1,431,059,967</u>

NOTE 16 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes, or by the occurrence of other events specified by donors, as follows:

	For the years ended June 30,	
	2020	2019
Restriction met:		
Patient care	\$ 206,358	\$ 174,819
Research and education	30,594,994	31,645,162
Financial aid for employees	3,413	6,279
Cigarette Tax - used for payment of principal and interest	16,461,099	15,395,428
Time	1,465,632	3,115,461
	<u>\$ 48,731,496</u>	<u>\$ 50,337,149</u>

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 17 - NON-CONTROLLING INTEREST

On April 20, 2017, the Cancer Center contributed a portion of its shares held in M2Gen to an unrelated charitable foundation. Accordingly, subsequent to the contribution, M2Gen is no longer a wholly owned subsidiary of the Cancer Center.

During the year ended June 30, 2018, M2Gen sold convertible preferred stock designated as Series A Preferred Stock, representing 24.9% outstanding interest in M2Gen, to an unrelated party to accelerate the discovery of innovative cancer therapies and improve care for patients nationwide. It is anticipated that this funding will expand the efforts of the Oncology Research Information Exchange Network ® (ORIEN) and will lead to M2Gen's ability to provide clinical decision support tools at the point of care based on the learning from the hundreds of thousands patient partners in Total Cancer Care ®.

The holders of Series A Preferred Stock have certain rights, preferences, powers and privileges, including voting, liquidation preference, dividends and distributions and conversion.

- Voting - Each share of Series A Preferred Stock is entitled to one vote.
- Liquidation preference - In the event of a deemed liquidation event, to the extent available, the preferred shares will receive up to the greater of the original purchase price of the shares or such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock immediately prior to such liquidation event.
- Dividends - All holders of Capital Stock are eligible for dividends. Any dividends declared or paid to common shareholders will also be paid to preferred shareholders as if they were converted on a one for one basis to common shares. Any dividends paid on the Preferred Stock will reduce the Original Issue purchase price on a prorata basis in the event of a liquidation event.
- Conversion - Each share of Series A Preferred Stock shall be convertible, at the option of the holder, at any time and from time to time, and without the payment of additional consideration by the holder, into the number of fully paid and non-assessable share Common stock determined by dividing the Series A Original Issue Price by the Series A Conversion Price in effect at the time of the conversion.

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following table presents the changes in consolidated net assets without donor restrictions attributable to the Cancer Center and transfers to the non-controlling interest in M2Gen.

	Total	Controlling Interest	Non-Controlling Interest
Balance, June 30, 2018	\$ 699,863,584	\$ 674,741,831	\$ 25,121,753
Excess of revenue and gains over expenses and losses	95,481,233	97,550,747	(2,069,514)
Other changes:			
Net assets released from restrictions and used to purchase property, plant and equipment	2,246,147	2,246,147	-
Net assets released from restrictions and used for payment of long-term debt	9,669,401	9,669,401	-
Grants received for reimbursement of property, plant and equipment	73,256	73,256	-
Restricted investment income	(719,764)	(719,764)	-
Other	2,250,034	2,235,968	14,066
Balance, June 30, 2019	808,863,891	785,797,586	23,066,305
Excess of revenue and gains over expenses and losses	115,845,604	116,341,474	(495,870)
Other changes:			
Net assets released from restrictions and used to purchase property, plant and equipment	1,942,316	1,942,316	-
Net assets released from restrictions and used for payment of long-term debt	10,459,241	10,459,241	-
Grants received for reimbursement of property, plant and equipment	11,510	11,510	-
Restricted investment income	(762,967)	(762,967)	-
Other	(43,431)	(43,431)	-
Balance, June 30, 2020	<u>\$ 936,316,164</u>	<u>\$ 913,745,729</u>	<u>\$ 22,570,435</u>

NOTE 18 – IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. As a result of the COVID-19 pandemic, the Cancer Center experienced declines in patient visits, admissions, and medical procedures performed towards the end of fiscal year 2020. Additionally, in response to the pandemic, the Cancer Center incurred additional costs for testing, personal protective equipment, third party contract services and other operating costs associated with ensuring employee and patient safety while operating during a pandemic.

The Cancer Center received grant payments, which are considered nonexchange transactions from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security (CARES) Act. For the year ended June 30, 2020 the payments received of \$25,600,000 are included in other revenue in the statement of operations and changes in net assets. These payments are subject to audit and compliance with federal regulations. While the federal regulations have not been finalized as of September 21, 2020, the Cancer Center believes it has met the conditions to retain these funds, and no amounts are reserved for repayment at June 30, 2020 in the accompanying consolidated balance sheet.

SUPPLEMENTARY INFORMATION

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

CONSOLIDATING BALANCE SHEET - CONTINUED

June 30, 2020

	H. Lee Moffitt Cancer Center & Research Institute Hospital, Inc.	H. Lee Moffitt Cancer Center & Research Institute, Inc.	H. Lee Moffitt Cancer Center & Research Institute Foundation, Inc.	H. Lee Moffitt Cancer Center & Research Institute Lifetime Cancer Screening Center, Inc.	Moffitt Technologies Corporation	M2Gen Corp.	OncoBay Clinical	Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	\$ 2,675	\$ 297,196,788	\$ 1,279,222	\$ -	\$ 260,908	\$ 1,278,882	\$ 147,296	\$ -	\$ 300,165,771
Current portion of assets limited as to use	-	16,404,914	-	-	-	-	-	-	16,404,914
Patient accounts receivable	152,243,037	-	-	11,052,155	-	-	-	-	163,295,192
Current portion of pledges receivable	-	-	3,203,850	-	-	-	-	-	3,203,850
Inventories	30,123,202	-	-	-	-	-	-	-	30,123,202
Grant receivables, net	21,036,632	20,089,365	-	-	-	-	-	-	41,125,997
Prepaid and other current assets	8,642,405	26,335,116	589,655	1,081,553	-	1,104,050	319,307	(9,887,778)	28,184,308
Total current assets	212,047,951	360,026,183	5,072,727	12,133,708	260,908	2,382,932	466,603	(9,887,778)	582,503,234
Assets limited as to use, net of current portion	-	650,268,555	135,526,271	-	-	-	-	-	785,794,826
Pledges receivable, less discounts and allowances for uncollectible pledges, net of current portion	-	-	5,084,377	-	-	-	-	-	5,084,377
Right of use asset - operating leases	5,931,309	29,359,749	-	-	-	-	-	-	35,291,058
Property, plant, and equipment:									
Land	-	26,107,905	-	-	-	-	-	-	26,107,905
Building and land improvements	281,110	572,769,821	-	-	-	-	-	-	573,050,931
Equipment	229,051,168	332,118,871	-	105,006	-	199,605	-	-	561,474,650
	229,332,278	930,996,597	-	105,006	-	199,605	-	-	1,160,633,486
Less accumulated depreciation	(179,430,692)	(475,788,886)	-	(71,564)	-	(199,605)	-	-	(655,490,747)
	49,901,586	455,207,711	-	33,442	-	-	-	-	505,142,739
Construction-in-progress	1,036,932	38,931,385	-	-	-	-	-	-	39,968,317
	50,938,518	494,139,096	-	33,442	-	-	-	-	545,111,056
Other assets	11,932,321	1,766,771	831,364	-	-	73,392,000	-	(1,462,353)	86,460,103
Interest in net assets of Foundation	5,156,523	46,726,058	-	-	-	-	-	(51,882,581)	-
Total assets	\$ 286,006,622	\$ 1,582,286,412	\$ 146,514,739	\$ 12,167,150	\$ 260,908	\$ 75,774,932	\$ 466,603	\$ (63,232,712)	\$ 2,040,244,654

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

CONSOLIDATING BALANCE SHEET - CONTINUED

June 30, 2020

	H. Lee Moffitt Cancer Center & Research Institute Hospital, Inc.	H. Lee Moffitt Cancer Center & Research Institute, Inc.	H. Lee Moffitt Cancer Center & Research Institute Foundation, Inc.	H. Lee Moffitt Cancer Center & Research Institute Lifetime Cancer Screening Center, Inc.	Moffitt Technologies Corporation	M2Gen Corp.	OncoBay Clinical	Eliminations	Total
Liabilities and net assets (deficiency)									
Current liabilities:									
Accounts payable and accrued expenses	\$ 51,721,238	\$ 61,376,731	\$ 9,221,949	\$ 744,162	\$ -	\$ 10,892,618	\$ 294,348	\$ (9,887,778)	\$ 124,363,268
Accrued employee compensation	4,524,000	70,362,125	226,000	11,857,145	-	1,455,891	-	-	88,425,161
Accrued interest	-	4,955,726	-	-	-	-	-	-	4,955,726
Current portion of deferred revenue	10,187	1,712,108	-	-	-	1,188,205	-	-	2,910,500
Estimated third-party settlements payable, net	18,403,688	-	-	-	-	-	-	-	18,403,688
Current portion of operating lease liability	1,837,471	8,099,376	-	-	-	-	-	-	9,936,847
Current portion of long-term debt	-	12,645,000	-	-	-	-	-	-	12,645,000
Total current liabilities	76,496,584	159,151,066	9,447,949	12,601,307	-	13,536,714	294,348	(9,887,778)	261,640,190
Other liabilities	6,565,248	3,195,079	1,293,782	-	4,800	1,916,666	-	-	12,975,575
Operating lease liability, net of current portion	4,097,292	27,747,162	-	-	-	-	-	-	31,844,454
Long-term debt, net of current portion	-	689,845,577	-	-	-	-	-	-	689,845,577
Total liabilities	87,159,124	879,938,884	10,741,731	12,601,307	4,800	15,453,380	294,348	(9,887,778)	996,305,796
Net assets (deficiency):									
Without donor restrictions									
H. Lee Moffitt Cancer Center and Research Institute, Inc. and Subsidiaries	193,690,975	635,201,170	48,590,615	(434,157)	256,108	37,751,117	172,255	(1,482,354)	913,745,729
Noncontrolling interest	-	-	-	-	-	22,570,435	-	-	22,570,435
Total net assets without donor restrictions	193,690,975	635,201,170	48,590,615	(434,157)	256,108	60,321,552	172,255	(1,482,354)	936,316,164
With donor restrictions	5,156,523	67,146,358	87,182,393	-	-	-	-	(51,862,580)	107,622,694
Total net assets (deficiency)	198,847,498	702,347,528	135,773,008	(434,157)	256,108	60,321,552	172,255	(53,344,934)	1,043,938,858
Total liabilities and net assets (deficiency)	\$ 286,006,622	\$ 1,582,286,412	\$ 146,514,739	\$ 12,167,150	\$ 260,908	\$ 75,774,932	\$ 466,603	\$ (63,232,712)	\$ 2,040,244,654

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries

CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended June 30, 2020

	H. Lee Moffitt Cancer Center & Research Institute Hospital, Inc.	H. Lee Moffitt Cancer Center & Research Institute, Inc.	H. Lee Moffitt Cancer Center & Research Institute Foundation, Inc.	H. Lee Moffitt Cancer Center & Research Institute Lifetime Cancer Screening Center, Inc.	Moffitt Technologies Corporation	M2Gen Corp.	OncoBay Clinical	Eliminations	Total
Net assets without donor restrictions:									
Patient service revenues	\$ 1,273,957,634	\$ -	\$ -	\$ 92,731,749	\$ -	\$ -	\$ -	\$ -	\$ 1,366,689,383
Other revenues, less provision for grant and other bad debts	79,557,154	160,386,692	6,444,149	9,470,785	-	22,404,195	-	(25,855,786)	252,407,189
Net assets released from restrictions and used for operating expenses	-	22,125,541	14,204,398	-	-	-	-	-	36,329,939
Total revenues and other support without donor restrictions	<u>1,353,514,788</u>	<u>182,512,233</u>	<u>20,648,547</u>	<u>102,202,534</u>	<u>-</u>	<u>22,404,195</u>	<u>-</u>	<u>(25,855,786)</u>	<u>1,655,426,511</u>
Expenses:									
Salaries, wages, and benefits	320,809,304	216,175,647	3,303,322	188,239,137	-	10,295,203	611,928	-	739,434,541
Faculty fees	9,618,448	(54,809)	-	-	-	-	-	-	9,895,972
Purchased services	43,287,786	102,485,051	3,285,535	3,967,880	1,229	5,485,942	135,710	(9,347,719)	149,301,414
Supplies	466,213,237	20,854,345	57,102	278,144	-	75,349	17,609	-	487,495,786
Other operating expenses	28,139,090	56,882,184	16,778,400	1,828,207	-	767,233	11,407	(16,489,915)	87,916,606
Depreciation and amortization	14,686,924	38,355,341	-	11,700	-	9,517,565	-	-	62,571,530
Interest	-	9,031,842	-	-	-	-	-	-	9,031,842
Intercompany services	183,405,338	(209,744,539)	1,101,873	25,237,328	-	-	-	-	-
Total expenses	<u>1,066,160,127</u>	<u>233,985,062</u>	<u>24,526,232</u>	<u>219,562,396</u>	<u>1,229</u>	<u>26,141,292</u>	<u>776,654</u>	<u>(25,837,634)</u>	<u>1,545,647,691</u>
Income (loss) from operations	287,354,661	(51,472,829)	(3,877,685)	(117,359,862)	(1,229)	(3,737,097)	(776,654)	(18,152)	109,778,820
Nonoperating gains, net	625,639	3,842,108	1,459,037	83,675	2,405	125,216	-	-	6,138,080
Excess (deficiency) of revenues and gains over expenses and losses before income taxes	<u>287,980,300</u>	<u>(47,630,721)</u>	<u>(2,418,648)</u>	<u>(117,276,187)</u>	<u>1,176</u>	<u>(3,611,881)</u>	<u>(776,654)</u>	<u>(18,152)</u>	<u>115,916,900</u>
Income tax expense	-	(3,090,620)	-	732,694	-	2,286,630	-	-	(71,296)
Excess (deficiency) of revenues and gains over expenses and losses	<u>\$ 287,980,300</u>	<u>\$ (50,721,341)</u>	<u>\$ (2,418,648)</u>	<u>\$ (116,543,493)</u>	<u>\$ 1,176</u>	<u>\$ (1,325,251)</u>	<u>\$ (776,654)</u>	<u>\$ (18,152)</u>	<u>\$ 115,845,604</u>

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

The Board of Directors
H. Lee Moffitt Cancer Center & Research Institute, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries (the "Cancer Center"), which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 21, 2020.

Internal control over financial reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cancer Center's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the Cancer 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*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cancer 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 Cancer Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Tampa, Florida
September 21, 2020