Grant Thornton

Combined Financial Statements and Report of Independent Certified Public Accountants

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

June 30, 2018 and 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

We have audited the accompanying combined financial statements of University Medical Service Association, Inc. (a nonprofit organization) and University of South Florida Medical Services Support Corporation (a nonprofit organization) (collectively, the "Company"), which comprise the combined balance sheets as of June 30, 2018 and 2017, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of University Medical Service Association, Inc. and University of South Florida Medical Services Support Corporation as of June 30, 2018 and 2017, and the combined 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.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 22-25 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined 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 combined financial statements or to the combined 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 combined 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 October 11, 2018, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Grant Thornton LLP

Tampa, Florida
October 11, 2018

Combined balance sheets

June 30,	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 6,660,507	$ 12,459,778
Investments	21,458,622	10,987,815
Patient accounts receivable, less allowances for contractual adjustments and doubtful accounts of approximately $49,192,000 and $47,926,000 at June 30, 2018 and 2017, respectively	19,594,522	21,506,295
Grants, contracts and awards receivable	8,663,827	6,080,594
Other receivables, net	14,585,819	9,804,560
Promise of contributed use of software – current	1,531,475	1,531,475
Due from University of South Florida	1,450,151	1,426,388
Due from USF Health Professions Conferencing Corporation	290,320	342,978
Prepaid expenses and other current assets	4,536,150	3,740,635
Total current assets	78,771,393	67,880,518
Buildings, property and equipment, net	56,064,615	58,326,194
Right to use software	6,173,468	4,188,480
Promise of contributed use of software – non-current	5,116,525	4,808,525
Due from University of South Florida Financing Corporation	3,745,245	3,158,618
Due from USF Health Services Support Organization, Inc.	234,362	166,667
Other non-current assets	6,950	12,465
Total assets	$ 150,112,558	$ 138,541,467
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 8,449,354	$ 6,256,869
Accrued expenses	14,625,244	10,518,707
Deferred revenue	1,469,856	891,904
Current portion of capital leases	436,969	416,339
Current portion of financing obligations	2,166,940	2,104,481
Total current liabilities	27,148,363	20,188,300
Capital leases, net of current portion	826,910	1,053,930
Deferred interest expense	656,043	656,043
Financing obligations, net of current portion	49,508,505	51,675,046
Accrued rent – long-term portion	184,505	142,950
Total liabilities	78,324,326	73,716,269
Net assets:		
Unrestricted	62,647,182	58,485,198
Temporarily restricted	9,141,050	6,340,000
Total net assets	71,788,232	64,825,198
Total liabilities and net assets	$ 150,112,558	$ 138,541,467

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

Combined statements of operations and changes in net assets

For the years ended June 30,	2018	2017
Changes in net assets		
Unrestricted revenues and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 200,253,319	$ 181,942,085
Provision for bad debts	(8,617,148)	(9,372,126)
Net patient service revenue less provision for bad debts	191,636,171	172,569,959
Grants, contracts and awards revenue	72,453,924	68,335,878
Other operating revenue	20,406,057	19,581,285
Net assets released from restriction	1,531,475	2,519,983
Total unrestricted revenues and other support	286,027,627	263,007,105
Expenses:		
Contributions on behalf of the Morsani College of Medicine:		
Salaries and wages – faculty and staff	192,938,216	178,696,420
Excess FICA refunds	(1,536,273)	(1,511,826)
Malpractice insurance support	4,149,388	4,160,202
Operating expenses	66,824,491	65,337,261
Amounts allocated from USF Financing Corporation	(586,627)	(1,573,645)
Depreciation, rent, repairs, and maintenance	16,565,724	17,261,043
Contributed software and licenses amortization	2,461,091	2,462,248
Software implementation and training costs	-	1,161,451
Interest	1,774,266	1,847,117
Total expenses	282,590,276	267,840,271
Income/(Loss) from operations	3,437,351	(4,833,166)
Nonoperating gains:		
Investment income, net	724,633	1,428,230
Increase/(Decrease) in unrestricted net assets	4,161,984	(3,404,936)
Changes in temporarily restricted net assets:		
Contributions	4,332,525	278,475
Net assets released from restrictions	(1,531,475)	(2,519,983)
Increase/(Decrease) in temporarily restricted net assets	2,801,050	(2,241,508)
Increase/(Decrease) in net assets	6,963,034	(5,646,444)
Net assets at beginning of year	64,825,198	70,471,642
Net assets at end of year	$ 71,788,232	$ 64,825,198

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

Combined statements of cash flows

For the years ended June 30,	2018	2017
Cash flows from operating activities and nonoperating gains:		
Increase/(decrease) in net assets	$ 6,963,034	$ (5,646,444)
Adjustments to reconcile increase/(decrease) in net assets to net cash provided by (used in) operating activities and nonoperating gains:		
Depreciation and amortization	4,824,190	5,368,520
Provision for bad debts	8,617,148	9,372,126
Net realized gain on investments	(642,743)	(1,380,674)
Noncash contributions	(4,316,888)	(278,475)
Noncash contributed software and licenses amortization	2,461,091	2,462,248
Noncash software implementation and training costs	-	988,508
Changes in operating assets and liabilities:		
Patient accounts receivable	(6,705,375)	(11,524,238)
Grants, contracts, and awards receivable	(2,583,233)	64,080
Other receivables	(4,781,259)	(5,016,056)
Due from University of South Florida	(23,763)	1,926,163
Due to/from USF Health Services Support Organization, Inc.	(67,695)	(166,667)
Due to/from University of South Florida Financing Corporation	(586,627)	(1,579,921)
Due to/from USF Health Professions Conferencing Corporation	52,658	664,750
Prepaid expenses and other current and non-current assets	(795,515)	585
Other assets	5,515	-
Accounts payable	2,192,485	(178,429)
Accrued expenses	4,106,537	314,247
Deferred revenue	577,952	(979,603)
Accrued rent	41,555	(15,316)
Net cash provided by (used in) operating activities and nonoperating gains	9,339,067	(5,604,596)
Cash flows from investing activities:		
Purchase of buildings, property and equipment	(2,566,074)	(2,105,617)
Proceeds from disposal of buildings, property and equipment	3,463	232,959
Purchase of right to use software	(437,191)	-
Purchase of investments	(19,000,000)	-
Proceeds from sale of investments	9,171,936	13,382,234
Net cash (used in) provided by investing activities	(12,827,866)	11,509,576
Cash flows from financing activities:		
Principal payments on capital lease obligations	(206,390)	(375,506)
Principal payments on financing obligations	(2,104,082)	(1,992,128)
Net cash used in financing activities	(2,310,472)	(2,367,634)
Net (decrease) increase in cash and cash equivalents	(5,799,271)	3,537,346
Cash and cash equivalents, beginning of year	12,459,778	8,922,432
Cash and cash equivalents, end of year	$ 6,660,507	$ 12,459,778
Supplemental disclosure of noncash investing and financing activities:		
Purchase of equipment under capital leases	$ 239,937	$ 1,424,869
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,774,266	$ 1,847,117

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

Notes to combined financial statements

Note A – Organization

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

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

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

With consideration given to recent court rulings around the eligibility of direct-support organizations for sovereign immunity, on September 16, 2015, the University's Board of Trustees approved the transition of MSSC's operations to UMSA over the course of the year ended June 30, 2016. MSSC continues to be a direct-support organization of the University, but it has no operations since the transition was completed during the year ended June 30, 2017. The University's agreement with UMSA was amended to eliminate certain limitations related to the operations of UMSA which were designed to protect UMSA from medical liability exposure.

Note B – Summary of Significant Accounting Policies

Principles of Combination

The combined financial statements for the years ended June 30, 2018 and 2017 are presented on a combined basis as a result of common control, operations, and management of UMSA and MSSC. All intercompany transactions and balances have been eliminated in combination.

Fund Accounting and Net Asset Classification

The Company presents its accounts in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide for Not-for-Profit Organizations (the Audit Guide). Under the Audit Guide, not-for-profit organizations are required to provide a statement of financial position, a statement of activities, and a statement of cash flows which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence of donor-imposed restrictions.

The Company maintains its accounts on the accrual basis of accounting. Net assets, revenues expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be used at the discretion of the Company's management and Board of Directors.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Company and/or the passage of time. Included in this category are contributions of future subsidies with respect to the Company's software licenses and associated services. These assets are released from restriction and reclassified as unrestricted net assets on the date the assets are placed in service or the services are completed.

Revenues are reported as increases in unrestricted net assets unless the use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets and reported in the accompanying combined statements of operations and changes in net assets as net assets released from restrictions.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) guidance that further clarifies the accounting for revenue and related revenue transactions, such as the provision for doubtful accounts. The standard was amended in March 2016 by ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* related to identifying performance obligations. In April 2016, ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing* was issued to further clarify the principal versus agent guidance. The standard was amended further in May 2016 with issuance of ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients* which clarifies revenue recognition guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Management is currently evaluating the effect of adopting the new standard on the Company's combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* 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 current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require 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 standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Management is currently evaluating the effect of adopting the new standard on the Company's combined financial statements.

In August 2016, the FASB issued ASU 2016-154, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958),* which changes certain financial statement requirements for not-for-profit (NFP) entities within the scope of Accounting Standards Codification (ASC) 958. NFP's will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, which will now result in presenting only two classes of net assets. The guidance also includes changes how entities report certain expenses and provide information about their available resources and liquidity. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning December 15, 2018 with early adoption permitted. Management is currently evaluating the effect of adopting the new standard on the Company's combined financial statements.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

The Company does not present expense information by functional classification because its resources and activities are primarily related to providing health care services.

Cash and Cash Equivalents

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

Investment Valuation and Investment Income Recognition

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

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

Inventory Valuation

Inventories consist primarily of drugs and medical supplies and are stated at the lower of cost or market with costs being determined using the weighted average method, which approximates the first-in first-out method. New purchases are added to existing inventory and the unit price becomes the average of the items on hand and the new items as they are received. As of June 30, 2018 and 2017, the Company had inventory balances of approximately $1,956,000 and $1,569,000, respectively, which are included in prepaid expenses and other current assets in the accompanying combined balance sheets. The Company reviews inventory for obsolescence and loss of value and records adjustments to inventories as they occur. No reserves were deemed necessary as of June 30, 2018 and 2017.

Allowance for Doubtful Accounts

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

Allowance for doubtful accounts for self-pay patients was 32.5% of self-pay accounts receivable, at June 30, 2018 and 24.6% of self-pay accounts receivable at June 30, 2017. The Company's self-pay write-offs decreased $1,079,000 from $9,670,000 for fiscal year 2017 to $8,591,000 for fiscal year 2018.

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

The Company has not changed its charity care policy during fiscal years 2017 or 2018. The Company does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs of doubtful accounts from third-party payors.

Buildings, Property and Equipment

Buildings, property and equipment are recorded at cost. The Company provides for depreciation using the straight-line method over the following expected useful lives:

	Life (Years)
Buildings and improvements	40
Medical and other equipment	5-7
Computer hardw are and softw are	3-5
Furniture and fixtures	5
Leasehold improvements	5 (or lease term if shorter)

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

Income Taxes

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

The Company periodically assesses whether it has incurred income tax expense or related interest or penalties, which are recognized in income tax expense in accordance with accounting for uncertain tax positions. The Company did not identify any uncertain tax positions as of June 30, 2018 or 2017.

Accrued Rent

The Company has entered into various office space lease agreements which specify escalating rent payments over the terms of the leases. Rent expense is recorded using the straight-line method over the respective lease term. Total accrued rent related to the leases was approximately $213,000 and $168,000 as of June 30, 2018 and 2017, respectively.

Net Patient Service Revenue

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

For the year ended June 30, 2018, net patient service revenue reflects a shortfall in estimated collections of approximately $3,682,000 due to actual contractual and other allowances incurred in 2018 for pre July 1, 2017 dates of service being greater than such estimated amounts. For the year ended June 30, 2017, net patient service revenue reflects a shortfall in estimated collections of approximately $2,456,000 due to actual contractual and other allowances incurred in 2017 for pre July 1, 2016 dates of service being greater than such estimated amounts.

Payments under various programs are based upon discounts from charges, per diem arrangements or per case arrangements. The composition of patient service revenue (net of contractual allowances and discounts) for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Managed care	67%	66%
Medicare	16%	16%
Medicaid	2%	2%
Private contractual agreements	15%	16%

UMSA receives fee schedule based payments for outpatient Medicaid services rendered. In addition, UMSA is eligible to receive distributions from the Agency for Health Care Administration based on physician-specific eligibility requirements. UMSA's policy is to recognize income as amounts are due and collection is reasonably assured. The receipt of additional distributions is contingent upon future actions by the State of Florida Legislature. During the years ended June 30, 2018 and 2017, UMSA recognized approximately $22,546,000 and $7,225,000, respectively, for payments accrued under this program. These amounts are included in net patient service revenue in the accompanying combined statements of operations and changes in net assets.

Grants, Contracts and Awards Revenue

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

Grant monies received and disbursed by the Company are for specific purposes and are subject to audit by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based on prior experience, the Company does not believe that such disallowances, if any, would have a material effect on its financial position. As of June 30, 2018 and 2017, management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

Excess FICA Refunds

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

The Company's policy is to record FICA refunds in the year in which the refund is formally applied for with the IRS by ASF. During the years ended June 30, 2018 and 2017, ASF filed for excess FICA overpayments for calendar years 2017 and 2016 totaling approximately $1,536,000 and $1,512,000, respectively. Amounts included in other receivables in the accompanying combined balance sheets as of June 30, 2018 and 2017 are approximately $1,536,000 and $1,512,000, respectively.

Other Operating Revenue and Operating Expenses

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

The Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs provide incentive payments to eligible professionals, eligible hospitals and critical access hospitals (CAHs) as they adopt, implement, upgrade or demonstrate meaningful use of certified EHR technology. Eligible professionals can receive up to $44,000 through the Medicare EHR Incentive Program and up to $63,750 through the Medicaid EHR Incentive Program. The Company qualified for and received meaningful use payments in the amount of $341,065 and $515,000 for the years ended June 30, 2018 and 2017, respectively. These amounts are included in other operating revenue in the accompanying combined statements of operations and changes in net assets.

Charity Care

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

The Company maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services under its charity care policy, as well as the number of charity care patients served. The level of charity care provided (charges foregone, based upon established rates) totaled approximately $5,531,000 and $3,766,000 for the years ended June 30, 2018 and 2017, respectively.

The estimated cost of services and supplies furnished under the Morsani College of Medicine charity care policy totaled approximately $1,966,000 and $1,357,000 for the years ended June 30, 2018 and 2017, respectively and is estimated based on a ratio of the Company's operational costs to its net revenue.

Concentrations of Credit Risk

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

The Company maintains its cash and cash equivalents and investments with what management has determined to be high credit quality financial institutions. As of June 30, 2018 and 2017, all of the Company's cash and cash equivalents were held at a single financial institution and are above the Federal Deposit Insurance Corporation insurance limit.

The Company grants credit without collateral to patients, most of whom are residents of Hillsborough County, Florida, and most of whom are insured under third-party payor agreements. Managed care contracts represent 57.8% and 58.7% of the Company's gross patient accounts receivable as of June 30, 2018 and 2017, respectively. Medicaid represents 5.2% and 5.0% of the Company's gross patient accounts receivable as of June 30, 2018 and 2017, respectively. Medicare represents 15.5% and 14.1% of the Company's gross patient accounts receivable as of June 30, 2018 and 2017, 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 an estimated allowance for contractual adjustments and doubtful accounts in the accompanying combined balance sheets.

Subsequent Events

The Company has evaluated subsequent events from the combined balance sheet date through October 11, 2018, the date at which the combined financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the combined financial statements.

Note C – Buildings, Property and Equipment

Buildings, property and equipment is comprised of the following as of June 30:

	2018	2017
Buildings	$ 67,086,545	$ 67,086,545
Medical and other equipment	19,981,717	18,159,637
Furniture and fixtures	2,424,320	2,379,990
Computer hardw are and softw are	27,173,308	26,386,794
Leasehold improvements	2,842,810	2,388,005
Construction in progress	3,631	551,758
	119,512,331	116,952,729
Less: Accumulated depreciation	(63,447,716)	(58,626,535)
	$ 56,064,615	$ 58,326,194

Depreciation expense, including amortization of assets under capital leases, for the years ended June 30, 2018 and 2017 was approximately $4,824,000 and $5,397,000, respectively, and is included in depreciation, rent, repairs, and maintenance in the accompanying combined statements of operations and changes in net assets.

Note D – Fair Value Measurements

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

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2018 and 2017.

- *Domestic Bonds* – Valued at quoted market prices.
- *Domestic Stocks* – Valued at quoted market prices.
- *International Stocks* – Valued at quoted market prices.

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

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

2018	Level 1	Level 2	Level 3	Total
Domestic high-grade corporate bonds	$ 2,293,085	$ -	$ -	$ 2,293,085
Large cap domestic stocks	6,097,506	-	-	6,097,506
Treasury bonds and domestic corporate bonds	7,411,414	-	-	7,411,414
Emerging Market International Funds	4,975,129	-	-	4,975,129
Large cap international stocks	681,488	-	-	681,488
Total investments in the fair value hierarchy	$ 21,458,622	$ -	$ -	$ 21,458,622

2017	Level 1	Level 2	Level 3	Total
Domestic high-grade corporate bonds	$ 1,292,809	$ -	$ -	$ 1,292,809
Large cap domestic stocks	3,500,158	-	-	3,500,158
Treasury bonds and domestic corporate bonds	1,400,533	-	-	1,400,533
Emerging Market International Funds	2,081,756	-	-	2,081,756
Large cap international stocks	1,540,624	-	-	1,540,624
Cash and cash equivalents	1,171,935	-	-	1,171,935
Total investments in the fair value hierarchy	$ 10,987,815	$ -	$ -	10,987,815

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

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

Investment return is summarized as follows for the years ended June 30:

	2018	2017
Interest and dividends	$ 338,712	$ 328,952
Net realized (losses) / gains	385,921	1,099,278
Total investment return	$ 724,633	$ 1,428,230

Note E – Leases with Affiliates

North and South Clinic Facilities

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

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

The South Clinic Facility is located near downtown Tampa on Davis Island adjacent to Tampa General Hospital. The seven-floor, 126,000-square-foot facility allowed for expansion of services, including diagnostic imaging and other diagnostic procedures. The facility opened with full operational functionality on August 27, 2007. As a result, as of June 30, 2018 and 2017, total building costs, net of accumulated depreciation, for the South Clinic totaled approximately $13,933,000 and $14,412,000, respectively. The Company paid USFFC approximately $1,111,000 and $1,028,000 during the years ended June 30, 2018 and 2017, respectively, related to the lease agreement.

The North Clinic Facility is a six-story structure, incorporating 194,400 gross square feet, near the primary entry point to the Morsani College of Medicine of the University's Tampa Campus. The facility houses an imaging center, ambulatory surgery/procedure center, and outpatient facilities, including 160 clinic exam rooms. Occupancy of the facility began in August 2008 with full functionality in September 2008. As a result, as of June 30, 2018 and 2017, building costs, net of accumulated depreciation, for the North Clinic totaled approximately $21,478,000 and $22,194,000, respectively. The Company paid USFFC approximately $1,611,000 and $1,490,000 during the years ended June 30, 2018 and 2017, respectively, related to the lease agreement.

Medical Faculty Office Building

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

The five-story, 100,000 square foot medical faculty office building is located on the Tampa campus of the University, also near the primary entry point to the Morsani College of Medicine of the University's Tampa Campus. The final accounting of project costs was completed in December 2009. Occupancy of the facility began in January 2009. As a result, as of June 30, 2018 and 2017, building costs, net of accumulated depreciation, totaled approximately $14,706,000 and $15,189,000, respectively, including capitalized interest of approximately $102,000. The Company paid USFFC approximately $1,542,000 and $1,514,000 during the years ended June 30, 2018 and 2017, respectively, related to the lease agreement.

As of June 30, 2017, UMSA is responsible for USFFC obligations under each of the facility lease agreements. Pursuant to these agreements, UMSA is allocated by USFFC all costs or benefits associated with these agreements. As of June 30, 2018, the Company has recorded an amount due from USFFC of approximately $3,745,000. As of June 30, 2017, the Company had an obligation due from USFFC of approximately $3,159,000. These amounts are reflected on the accompanying combined balance sheets. The amounts due to/from USFFC include the fair value of an interest rate swap held by USFFC and the cumulative amount of revenues earned and expenses incurred by USFFC on the Company's behalf. The corresponding increase/(decrease) in the fair value of the interest rate swap of approximately ($473,000) and $(1,380,000) and the cumulative amount of revenues earned and expenses incurred by USFFC on the Company's behalf of approximately ($113,000) and $(194,000) are presented as amounts allocated from USF Financing Corporation in the combined statements of operations and changes in net assets for the years ended June 30, 2018 and 2017, respectively.

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

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

	2018	2017
Facility lease agreement for South Clinic Facility, due June 30, 2036, monthly payments based on yearly debt service of Series 2013A Bond Certificates held by USFFC, beginning July 1, 2006 through June 30, 2036. Effective interest rate is 2.31% for the duration of July 1, 2016 through July 1, 2026.	$ 14,108,175	$ 14,745,873
Facility lease agreement for North Clinic Facility, due June 30, 2036 monthly payments based on yearly debt service of Series 2013A Bond Certificates held by USFFC, beginning July 1, 2006 through June 30, 2036. Effective interest rate is 2.31%, for the duration of July 1, 2016 through July 1, 2026.	20,726,825	21,655,025
Facility lease agreement for Medical Office Building, due June 30, 2037, monthly payments based on yearly debt service of Series 2013B Bond Certificates held by USFFC, beginning July 1, 2010 through June 30, 2037. Effective interest rate is 3.774%	16,840,445	17,378,629
	51,675,445	53,779,527
Less current maturities	(2,166,940)	(2,104,481)
	$ 49,508,505	$ 51,675,046

During the years ended June 30, 2018 and 2017, the Company paid principal relating to the South Clinic Facility of approximately $637,000 and $618,000, respectively, and principal relating to the North Clinic Facility of approximately $929,000 and $907,000, respectively. During the years ended June 30, 2018 and 2017, the Company paid principal relating to the MOB of approximately $538,000 and $568,000, respectively. During the fiscal year ended June 30, 2010, USFFC finalized project costs for the MOB which resulted in the realization of excess funds of approximately $2,500,000 which were available for utilization in the payment of debt service and the underlying debt service schedule was adjusted accordingly. As a result, the Company's actual monthly payments in relation to the MOB financing obligation through the year ended June 30, 2013 were less than interest costs for this period by $656,000. The cumulative difference is included in deferred interest expense in the accompanying combined balance sheets and will be reduced over the remaining period of the bond.

The future principal payments under these financing obligations as of June 30, 2018 are as follows:

	Amount
2019	$ 2,166,940
2020	2,227,772
2021	2,289,233
2022	2,360,931
2023	2,427,912
Thereafter	40,202,657
Total principal payments	$ 51,675,445

Note F – Transactions with Affiliates

Expenses totaling approximately $11,484,000 and $9,970,000 during the years ended June 30, 2018 and 2017, respectively, were allocated to UMSA from the Morsani College of Medicine for its centralized programs and overhead services utilized by UMSA.

Convenience accounts have been established as a mechanism for the Company's clinical departments to fund certain components of their operations that are incurred initially by the University. These obligations are paid by the University on behalf of the clinical departments as a matter of convenience. These amounts are ultimately reimbursed to the University by the Company through the funding of the convenience accounts. During the years ended June 30, 2018 and 2017, convenience account funding for salary grants and other operating expenses totaled approximately $52,407,000 and $49,122,000, respectively. As of June 30, 2018 and 2017, the year-end reconciliation of these accounts identified departments with excess cash balances, as well as those in a deficit position. The net excess cash balance of approximately $2,045,000 and $717,000 is included as a component of the Due from the University of South Florida on the accompanying combined balance sheets as of June 30, 2018 and 2017, respectively.

The clinical component of physician salaries and certain benefits is paid through ASF. The Company has been designated as the agent for this account by the University. Consequently, funding for this account is provided by the Company on a monthly basis. During the years ended June 30, 2018 and 2017, the Company transferred approximately $98,551,000 and $92,433,000, respectively, to ASF for salaries and other related expenses.

The Company is party to an agreement with the University and USF Health Professions Conferencing Corporation (HPCC) to provide human resources and payroll processing support services to HPCC. The Company is to be reimbursed by HPCC for certain costs related to payments made by the Company for payroll, leases, and other administrative support services. As of June 30, 2018 and 2017, the Company has recorded the amount to be reimbursed of approximately $290,000 and $343,000, respectively as due from HPCC on the accompanying combined balance sheets. During the year ended June 30, 2018, the Company paid approximately $1,035,000 in payroll costs that will not be reimbursed by HPCC which is included in operating expenses on the accompanying combined statements of operations and changes in net assets.

On January 30, 2017, UMSA entered into a two year promissory note with University of South Florida Health Services Support Organization, Inc. (HSSO) for the purpose of making the investment in the Tampa Bay Health Alliance. HSSO is a direct support organization of the University of South Florida and is an affiliate of UMSA, given this common control. According to the terms of the note, the repayment date commences on a future date, which is initiated upon the delivery of written notice by UMSA to HSSO. As of June 30, 2018, there has been no correspondence provided to HSSO regarding the initial due date.

The borrowing rate, as defined in the agreement, is equal to the Wall Street Journal prime rate, at the date of the note agreement, 3.75%. Further, the rate will be adjusted annually on December 31 using the same financial instrument to determine the rate. Interest on the note is set to begin on the beginning of the repayment period which is a two year period commencing upon notice to HSSO. As of June 30, 2018, no correspondence has been provided to HSSO and as such, no interest has accrued.

HSSO has been given the option to prepay for any or all of the note prior to the payment due date. As of June 30, 2018 and 2017, HSSO has not repaid any portion of the promissory note, which has a principal balance of $234,362 and $166,667, respectively.

Note G – Capital Leases

As of June 30, 2018, future payments under capital leases by year are as follows:

Years ended	Amount
2019	$ 467,702
2020	415,624
2021	326,428
2022	99,997
2023	15,815
	1,325,566
Less amounts representing interest	(61,687)
Present value of net minimum payments	1,263,879
Less current maturities	(436,969)
	$ 826,910

As of June 30, 2018 and 2017, total assets recorded under capital leases had a cost of approximately $2,217,000 and $2,627,000, respectively. For the years ended June 30, 2018 and 2017, amortization of assets recorded under capital leases was approximately $441,000 and $410,000, respectively, and accumulated amortization was approximately $970,000 and $1,137,000 as of June 30, 2018 and 2017, respectively.

Note H – Commitments and Contingencies

The Company has commitments for various agreements and operating leases for facilities, medical offices and equipment. Total rental expense incurred under the agreements and leases charged to operations during the years ended June 30, 2018 and 2017 was approximately $4,585,000 and $4,376,000, respectively. Commitments for the Company's noncancelable operating leases with terms in excess of one year, excluding building leases with affiliates (see Note E) as of June 30, 2018 are as follows:

Years ended	Amount
2019	$ 2,475,228
2020	1,286,486
2021	568,578
2022	61,117
	$ 4,391,409

The Company has a self-funded plan for its employees' health insurance program. The Company retains a liability of $200,000 for each individual for the policy year. The Company also retains an annual aggregate liability limit of $9,140,000 for fiscal year 2018. The Company accrues health insurance costs using estimates to approximate the liability for reported claims and claims incurred but not reported, as determined by an independent actuary. As of June 30, 2018 and 2017, the Company accrued a liability of approximately $605,000 and $687,000, respectively for claims incurred and claims incurred but not reported.

Note I – Regulatory Compliance

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

Note J – Malpractice Insurance

The Morsani College of Medicine participates in a pooled insurance program that provides occurrence-based coverage up to certain limits. Excess malpractice liability coverage is also provided by the program over the occurrence-based coverage limits on a claims-made basis. The Morsani College of Medicine is statutorily provided sovereign immunity pursuant to Chapter 768.26 of the Florida Statutes. For the years ended June 30, 2018 and 2017, the Company paid approximately $4,149,000 and $4,160,000, respectively, to the University of South Florida Self-Insurance Program on behalf of the Morsani College of Medicine.

Note K – Affiliation Agreement with Tampa General Hospital

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

During the year ended June 30, 2015, the Company recorded a temporarily restricted contribution of $8,113,000 as a promise of contributed use of software which is the present value of TGH's commitment to subsidize 85% of the estimated annual subscription fees due through the term of the agreement. Since the restricted purpose of a portion of the temporarily restricted contribution was accomplished during the years ended June 30, 2018 and 2017, the Company released approximately $1,531,000 of temporarily restricted contributions related to the promise of contributed use of software in both years. During the years ended June 30, 2018, and 2017, the Company recorded an additional temporarily restricted contribution of approximately $225,000 and $278,000 related to the accretion of the discount of TGH's commitment of contributed use of software, respectively.

In addition, the Company recorded approximately $7,353,000 as temporarily restricted contributions for the year ended June 30, 2015 for costs incurred by TGH for the upfront licensing, equipment, implementation, and training costs related to the Epic Software sublicense. Since the restricted purpose was accomplished during the year ended June 30, 2015, the temporarily restricted contributions have been released from restrictions. Of this amount, approximately $3,260,000 and $4,188,000 was recorded as right for use of software in the accompanying combined balance sheets as of June 30, 2018, and 2017, respectively.

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

In March of 2016, the University, UMSA, and TGH entered into a third amendment to the operating addendum to the affiliation agreement (Third Amendment) between the University, UMSA, and TGH. Under the Third Amendment, TGH contributed, and UMSA received additional subsidized services and optimization services to optimize the use of the Epic Software. The Third Amendment calls for the University to pay to TGH approximately $228,000 which represents 15% of TGH's estimated costs for furnishing the optimization services. UMSA is making these payments on behalf of the University. During the year ended June 30, 2016, approximately 26% of the optimization services had been completed with the remaining optimization services provided during the year ended June 30, 2017. Approximately, $173,000 has been recorded as software implementation and training costs in the accompanying statement of operations and changes in net assets for the year ended June 30, 2017.

As a result of the Third Amendment, the Company recorded a temporarily restricted contribution of approximately $1,297,000 for the estimated costs to be incurred by TGH for the optimization services during the year ended June 30, 2016. During the year ended June 30, 2017, the remaining balance of this temporarily restricted contribution of approximately $988,000 has been released from restrictions and a corresponding expense has been recorded in the accompanying combined statement of operations and changes in net assets for the year ended June 30, 2017.

In May of 2018, the University, UMSA, and TGH entered into a fourth amendment to the operating addendum to the affiliation agreement (Fourth Amendment) between the University, UMSA, and TGH. Under the Fourth Amendment, TGH contributed, and UMSA accepted, TGH's donation of a sublicense for the EPIC Clinical and Professional Billing Component (EPIC PB) and related services as described in the Fourth Amendment. The Company anticipates that EPIC PB will replace its current billing software with a go-live date for implementation of July 1, 2019. The Fourth Amendment calls for TGH to contribute up to 85% of the implementation costs and UMSA to be responsible for 15% of the implementation costs. The implementation costs consist of one-time up-front fees and annual subscription fees. As of June 30, 2018, no costs had been incurred this arrangement. In the event, UMSA does not meet certain usage criteria as set forth in the Fourth Amendment, UMSA is obligated to reimburse TGH for the 85% of implementation costs contributed.

As a result of the Fourth Amendment, the Company recorded a temporarily restricted contribution of $1,614,000 as a promise of contributed use of software which is the present value of TGH's commitment to subsidize 85% of the additional estimated annual subscription fees due through the term of the agreement for the EPIC PB.

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

In addition, the Company recorded approximately $2,493,000 as temporarily restricted contributions for the year ended June 30, 2018 for costs to be incurred by TGH for the upfront licensing, equipment, implementation, and training costs related to the Epic PB software sublicense.

Note L – Retirement Plans

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

Under the Plan, the Company contributes at an approved rate of each eligible individual's total compensation. Contribution expense under the Plan amounted to approximately $1,866,000 for the year ended June 30, 2018 and $1,811,000 for the year ended June 30, 2017 and is included in faculty and staff salary support in the accompanying combined statements of operations and changes in net assets.

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

COMBINING FINANCIAL STATEMENTS

Combining balance sheets

June 30, 2018	UMSA	MSSC	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 6,660,507	$ -	$ -	$ 6,660,507
Investments	21,458,622	-	-	21,458,622
Patient accounts receivable, less allowances for contractual adjustments and doubtful accounts of approximately $49,192,000 and $47,926,000 at June 30, 2018 and 2017, respectively	19,594,522	-	-	19,594,522
Grants, contracts and awards receivable	8,663,827	-	-	8,663,827
Other receivables, net	14,585,819	-	-	14,585,819
Promise of contributed use of software – current	1,531,475	-	-	1,531,475
Due from University of South Florida	2,159,151	-	(709,000)	1,450,151
Due from University Medical Service Association	-	709,000	(709,000)	-
Due from USF Health Professions Conferencing Corporation	290,320	-	-	290,320
Prepaid expenses and other current assets	4,536,150	-	-	4,536,150
Total current assets	79,480,393	709,000	(1,418,000)	78,771,393
Buildings, property and equipment, net	56,064,615	-	-	56,064,615
Right to use software	6,173,468	-	-	6,173,468
Promise of contributed use of software – non-current	5,116,525	-	-	5,116,525
Due from University of South Florida Financing Corporation	3,745,245	-	-	3,745,245
Due from USF Health Services Support Organization, Inc.	234,362	-	-	234,362
Other non-current assets	6,950	-	-	6,950
Total assets	$ 150,821,558	$ 709,000	$ (1,418,000)	$ 150,112,558
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 8,449,354	$ -	$ -	$ 8,449,354
Accrued expenses	14,625,244	-	-	14,625,244
Deferred revenue	1,469,856	-	-	1,469,856
Due to University of South Florida	-	709,000	(709,000)	-
Due to MSSC	709,000	-	(709,000)	-
Current portion of capital leases	436,969	-	-	436,969
Current portion of financing obligations	2,166,940	-	-	2,166,940
Total current liabilities	27,857,363	709,000	(1,418,000)	27,148,363
Capital leases, net of current portion	826,910	-	-	826,910
Deferred interest expense	656,043	-	-	656,043
Financing obligations, net of current portion	49,508,505	-	-	49,508,505
Accrued rent – long-term portion	184,505	-	-	184,505
Total liabilities	79,033,326	709,000	(1,418,000)	78,324,326
Net assets:				
Unrestricted	62,647,182	-	-	62,647,182
Temporarily restricted	9,141,050	-	-	9,141,050
Total net assets	71,788,232	-	-	71,788,232
Total liabilities and net assets	$ 150,821,558	$ 709,000	$ (1,418,000)	$ 150,112,558

Combining balance sheets - continued

June 30, 2017	UMSA	MSSC	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 12,459,778	$ -	$ -	$ 12,459,778
Investments	10,987,815	-	-	10,987,815
Patient accounts receivable, less allowances for contractual adjustments and doubtful accounts of approximately $47,926,000	21,506,295	-	-	21,506,295
Grants, contracts and awards receivable	6,080,594	-	-	6,080,594
Other receivables, net	9,804,560	-	-	9,804,560
Promise of contributed use of software – current	1,531,475	-	-	1,531,475
Due from University of South Florida	1,426,388	-	-	1,426,388
Due from USF Health Professions Conferencing Corporation	342,978	-	-	342,978
Prepaid expenses and other current assets	3,740,635	-	-	3,740,635
Total current assets	67,880,518	-	-	67,880,518
Buildings, property and equipment, net	58,326,194	-	-	58,326,194
Right to use software	4,188,480	-	-	4,188,480
Promise of contributed use of software – non-current	4,808,525	-	-	4,808,525
Due from University of South Florida Financing Corporation	3,158,618	-	-	3,158,618
Due from USF Health Services Support Organization, Inc.	166,667	-	-	166,667
Other non-current assets	12,465	-	-	12,465
Total assets	$ 138,541,467	$ -	$ -	$ 138,541,467
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 6,256,869	$ -	$ -	$ 6,256,869
Accrued expenses	10,518,707	-	-	10,518,707
Deferred revenue	891,904	-	-	891,904
Current portion of capital leases	416,339	-	-	416,339
Current portion of financing obligation	2,104,481	-	-	2,104,481
Total current liabilities	20,188,300	-	-	20,188,300
Capital leases, net of current portion	1,053,930	-	-	1,053,930
Deferred interest expense	656,043	-	-	656,043
Financing obligation, net of current portion	51,675,046	-	-	51,675,046
Accrued rent – long-term portion	142,950	-	-	142,950
Total liabilities	73,716,269	-	-	73,716,269
Net assets:				
Unrestricted	58,485,198	-	-	58,485,198
Temporarily restricted	6,340,000	-	-	6,340,000
Total net assets	64,825,198	-	-	64,825,198
Total liabilities and net assets	$ 138,541,467	$ -	$ -	$ 138,541,467

Combining statements of operations and changes in net assets

For the year ended June 30, 2018	UMSA	MSSC	Eliminations	Total
Changes in net assets				
Unrestricted revenues and other support:				
Patient service revenue (net of contractual allowances and discounts)	$ 200,253,319	$ -	$ -	$ 200,253,319
Provision for bad debts	(8,617,148)	-	-	(8,617,148)
Net patient service revenue less provision for bad debts	191,636,171	-	-	191,636,171
Grants, contracts and awards revenue	72,453,924	-	-	72,453,924
Other operating revenue	20,406,057	-	-	20,406,057
Net assets released from restriction	1,531,475	-	-	1,531,475
Total unrestricted revenues and other support	286,027,627	-	-	286,027,627
Expenses:				
Contributions on behalf of the Morsani College of Medicine:				
Salaries and wages – faculty and staff	192,938,216	-	-	192,938,216
Excess FICA refunds	(1,536,273)	-	-	(1,536,273)
Malpractice insurance support	4,149,388	-	-	4,149,388
Operating expenses	66,824,491	-	-	66,824,491
Amounts allocated from USF Financing Corporation	(586,627)	-	-	(586,627)
Depreciation, rent, repairs, and maintenance	16,565,724	-	-	16,565,724
Contributed software and licenses amortization	2,461,091	-	-	2,461,091
Interest	1,774,266	-	-	1,774,266
Total expenses	282,590,276	-	-	282,590,276
Income from operations	3,437,351	-	-	3,437,351
Nonoperating gains:				
Investment income, net	724,633	-	-	724,633
Increase in unrestricted net assets	4,161,984	-	-	4,161,984
Changes in temporarily restricted net assets:				
Contributions	4,332,525	-	-	4,332,525
Net assets released from restrictions	(1,531,475)	-	-	(1,531,475)
Increase in temporarily restricted net assets	2,801,050	-	-	2,801,050
Increase in net assets	6,963,034	-	-	6,963,034
Net assets at beginning of year	64,825,198	-	-	64,825,198
Net assets at end of year	$ 71,788,232	$ -	$ -	$ 71,788,232

Combining statements of operations and changes in net assets - continued

For the year ended June 30, 2017	UMSA	MSSC	Eliminations	Total
Changes in net assets				
Unrestricted revenues and other support:				
Patient service revenue (net of contractual allowances and discounts)	$ 181,942,085	$ -	$ -	$ 181,942,085
Provision for bad debts	(9,372,126)	-	-	(9,372,126)
Net patient service revenue less provision for bad debts	172,569,959	-	-	172,569,959
Grants, contracts and awards revenue	68,335,878	-	-	68,335,878
Other operating revenue	19,581,285	-	-	19,581,285
Net assets released from restriction	2,519,983	-	-	2,519,983
Total unrestricted revenues and other support	263,007,105	-	-	263,007,105
Expenses:				
Contributions on behalf of the Morsani College of Medicine:				
Salaries and wages – faculty and staff	178,696,420	-	-	178,696,420
Excess FICA refunds	(1,511,826)	-	-	(1,511,826)
Malpractice insurance support	4,160,202	-	-	4,160,202
Operating expenses	65,337,261	-	-	65,337,261
Amounts allocated from USF Financing Corporation	(1,573,645)	-	-	(1,573,645)
Depreciation, rent, repairs, and maintenance	17,261,043	-	-	17,261,043
Contributed software and licenses amortization	2,462,248	-	-	2,462,248
Software implementation and training costs	1,161,451	-	-	1,161,451
Interest	1,847,117	-	-	1,847,117
Total expenses	267,840,271	-	-	267,840,271
Loss from operations	(4,833,166)	-	-	(4,833,166)
Nonoperating gains:				
Investment income, net	1,428,230	-	-	1,428,230
Transfer from MSSC to UMSA	89,523	(89,523)	-	-
Decrease in unrestricted net assets	(3,315,413)	(89,523)	-	(3,404,936)
Changes in temporarily restricted net assets:				
Contributions	278,475	-	-	278,475
Net assets released from restrictions	(2,519,983)	-	-	(2,519,983)
Decrease in temporarily restricted net assets	(2,241,508)	-	-	(2,241,508)
Decrease in net assets	(5,556,921)	(89,523)	-	(5,646,444)
Net assets at beginning of year	70,382,119	89,523	-	70,471,642
Net assets at end of year	$ 64,825,198	$ -	$ -	$ 64,825,198

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of University Medical Service Association, Inc. ("UMSA"), and University of South Florida Medical Service Support Corporation ("MSSC") (collectively, the "Entity"), which comprise the combined balance sheet as of June 30, 2018, and the related combined 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 October 11, 2018.

Internal control over financial reporting

In planning and performing our audit of the combined financial statements, we considered the Entity'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 Entity's internal control.

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

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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 Entity'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 Entity's combined 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 Entity'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 Entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Tampa, Florida
October 11, 2018