USF HEALTH PROFESSIONS CONFERENCING CORPORATION

Basic Financial Statements
and
Required Supplementary Information

June 30, 2019
(With Independent Auditor's Report Thereon)

USF HEALTH PROFESSIONS CONFERENCING CORPORATION

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Independent Auditor's Report on Basic Financial Statements and Required Supplementary Information

The Board of Directors
USF Health Professions Conferencing Corporation:

We have audited the accompanying financial statements of USF Health Professions Conferencing Corporation ("HPCC"), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USF Health Professions Conferencing Corporation as of June 30, 2019, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As a result of the Florida Excellence in Higher Education Act of 2018, for all universities within the State University System ("SUS") of Florida, the university board of trustees must approve all appointments to the board of directors of any university direct support organization ("DSO"), including HPCC. This change required all SUS university DSOs, including HPCC, to follow the Governmental Accounting Standards Board ("GASB") financial accounting framework beginning in the fiscal year ended June 30, 2019.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedule of functional expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic 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 10, 2019, on our consideration of USF Health Professions Conferencing Corporation'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 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 USF Health Professions Conferencing Corporation's internal control over financial reporting and compliance.

MAYER HOFFMAN McCANN P.C.

October 10, 2019
Clearwater, Florida

Management's Discussion and Analysis

The management's discussion and analysis ("MD&A") provides a financial performance review that is designed to focus on the financial activities, resulting changes, and currently known facts of USF Health Professions Conferencing Corporation ("HPCC") for the fiscal year ended June 30, 2019. The MD&A should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of HPCC's management.

Overview of Financial Statements

Pursuant to GASB Statement No. 35, HPCC's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows.

The statement of net position reflects the assets, deferred inflows of resources, and liabilities of HPCC, using the accrual basis of accounting, and presents the financial position of HPCC at a specified time. The difference between total assets less deferred inflows of resources and total liabilities is net position. The net position is an indicator of HPCC's financial health.

The statement of revenues, expenses and changes in net position presents HPCC's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The statement of cash flows provides information in the form of cash inflows and outflows summarized by operating, capital and related financing activities, and investing activities. This statement will assist in evaluating HPCC's ability to generate net cash flows and its ability to meet its financial obligations as they come due.

Financial Highlights

HPCC's assets totaled $23.5 million at June 30, 2019. This balance reflects an increase of $1.2 million (5%) from total assets of $22.3 million at June 30, 2018. Total liabilities decreased $1 million (-5%) to $17.8 million at June 30, 2019 from $18.8 million at June 30, 2018. Deferred inflows increased $793 thousand (106%) to $1.5 million at June 30, 2019 from $748 thousand at June 30, 2018. HPCC's net position increased by $1.3 million (48%), reaching a year-end balance of $4.1 million.

HPCC's operating revenues were $17 million in fiscal year 2019, for an increase of $2.1 million (14%) from the prior fiscal year. Operating expenses in fiscal year 2019 were $16.1 million, an increase of $2.8 million (21%) from fiscal year 2018. Operating income for fiscal year 2019 was $845 thousand, a decrease of $674 thousand (-44%) from the prior fiscal year.

Nonoperating revenue, net of nonoperating expenses, was $490 thousand in fiscal year 2019, for a 35% increase from the $363 thousand net nonoperating revenue in fiscal year 2018. Fiscal year 2019 increase in net position was $1.3 million as a result of the excess of revenues over expenses.

Condensed Statements of Net Position

The following summarizes HPCC's assets, deferred inflows of resources, liabilities, and net position at June 30:

		2019	2018
ASSETS			
Current assets	$	6,186,783	3,790,990
Capital assets		17,261,747	18,548,063
Other noncurrent assets		14,810	6,650
Total assets	$	23,463,340	22,345,703
LIABILITIES			
Current	$	3,940,609	3,854,357
Noncurrent		13,843,518	14,939,793
Total liabilities		17,784,127	18,794,150
DEFERRED INFLOWS OF RESOURCES			
Deferred grants		1,540,083	747,799
NET POSITION			
Net investment in capital assets		2,327,334	2,442,997
Unrestricted		1,811,796	360,757
Total net position		4,139,130	2,803,754
	$	23,463,340	22,345,703

Current assets were $6.2 million at June 30, 2019, for an increase of $2.4 million (63%) from the prior fiscal year. The increase in current assets is primarily from an increase in cash of $2.1 million (89%), while other current asset items also increased. Capital assets decreased $1.3 million (-7%) to $17.3 million at June 30, 2019 from $18.5 million at June 30, 2018. The net decrease resulted from depreciation charges of $1.4 million, offset by capital asset additions of $154 thousand for fiscal year 2019.

Total liabilities decreased $1 million (-5%) to $17.8 million at June 30, 2019 from $18.8 million at June 30, 2018. Decrease in liabilities primarily resulted from scheduled payments on debt and capital lease obligations of $1.2 million made in fiscal year 2019.

Deferred inflows of resources consisting of deferred grants was $1.5 million at June 30, 2019, an increase of $792 thousand (106%) from the prior fiscal year. The increase in deferred grants also increased the June 30, 2019 cash position.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following summarizes HPCC's activities for the fiscal years ended June 30:

		2019	2018
Operating revenue	$	16,981,325	14,866,077
Operating expenses		(16,136,391)	(13,346,719)
Operating income		844,934	1,519,358
Net nonoperating revenues		490,442	362,531
Increase in net position		1,335,376	1,881,889
Net position, beginning of year		2,803,754	921,865
Net position, end of year	$	4,139,130	2,803,754

Operating Revenues

Operating revenues by source for the fiscal years ended June 30, 2019 and 2018 were as follows:

		2019	2018	Increase (Decrease)	% Change
Contracts and grants - non USF	$	9,564,952	7,338,847	2,226,105	30%
Contracts and grants - USF		4,269,575	4,426,650	(157,075)	(4)%
Program registration and exhibits		2,414,410	2,569,486	(155,076)	(6)%
Rental revenue		540,639	372,386	168,253	45%
Investment income		2,814	4,611	(1,797)	(39)%
Rebates and commissions		188,935	154,097	34,838	23%
Total operating revenues	$	16,981,325	14,866,077	2,115,248	14%

HPCC total operating revenues consisting of financial management support for the USF Health Office of Continuing Professional Development ("OCPD") and management of the USF Health Center for Advanced Medical Learning and Simulation ("CAMLS") were $17 million in fiscal year 2019, an increase of $2.1 million (14%). Revenue growth was generated from OCPD Continuing Medical Education programming in partnership with medical education companies and rental income from tenants at the CAMLS.

Operating Expenses

The following summarizes the operating expenses for the fiscal years ended June 30, 2019 and 2018:

	2019	2018	Increase (Decrease)	% Change
Salaries and benefits	$ 4,113,996	3,364,139	749,857	22%
Rent, utilities and equipment leases	1,589,923	1,600,097	(10,174)	(1)%
Other operating expenses	669,106	679,555	(10,449)	(2)%
Depreciation expense	1,440,267	1,720,266	(279,999)	(16)%
Program services	8,323,099	5,982,662	2,340,437	39%
Total operating expenses	$ 16,136,391	13,346,719	2,789,672	21%

HPCC total operating expenses increased $2.8 million in 2019 (21%) to $16.1 million. The fiscal year 2019 increase is primarily attributable to increased program services from OCPD Continuing Medical Education programming in partnership with medical education companies. Although depreciation costs have decreased, wages increased year over year with the recruitment of a CAMLS executive director and additional staffing to maintain a high quality of service as academic activities have increased.

Nonoperating Revenues and Expenses

Certain revenue sources, including contributions, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes HPCC's nonoperating revenues and expenses for the 2019 and 2018 fiscal years:

	2019	2018	Increase (Decrease)	% Change
Transfers from UMSA	$ 1,060,000	1,033,000	27,000	3%
Interest paid on debt	(569,558)	(680,966)	111,408	(16)%
Gain on asset disposal	-	10,497	(10,497)	(100)%
Total net nonoperating revenue	$ 490,442	362,531	127,911	35%

Nonoperating funds from University Medical Services Association, Inc. ("UMSA") strengthened HPCC's year-end cash position.

Condensed Statements of Cash Flows

The following summarizes cash flows for the 2019 and 2018 fiscal years:

		2019	2018
Cash flows from:			
Operating activities	$	2,758,402	2,805,512
Noncapital and related financing activities		972,000	938,000
Capital and related financing activities		(1,677,320)	(2,151,318)
Net increase in cash and cash equivalents		2,053,082	1,592,194
Cash and cash equivalents, beginning of year		2,308,661	716,467
Cash and cash equivalents, end of year	$	4,361,743	2,308,661

Fiscal year 2019 generated positive cash flow from operating activities of $2.8 million. This represents a decrease of $47 thousand (2%) from the $2.8 million generated in fiscal year 2018.

Noncapital and related financing activities represent transfers from UMSA for continuing education of students and faculty.

Net cash used by capital and related financing activities was $1.7 million in FY19 and includes purchases of capital assets of $154 thousand, $1.2 million payment of debt and capitalized lease obligations and $570 thousand payment of associated interest costs. The year over year decrease is the result of a reduction in capital asset purchases and an increase in proceeds from the sale of capital assets.

Capital Assets

At June 30, 2019, HPCC had $35.6 million in capital assets, less accumulated depreciation of $18.3 million, for net capital assets of $17.3 million. Depreciation expense totaled $1.4 million and $1.7 million for the fiscal years ended June 30, 2019 and 2018, respectively.

Debt Administration

At June 30, 2019, HPCC had $14.9 million in outstanding debt and capitalized lease obligations representing a decrease of $1.2 million, or -7%, from the prior fiscal year balance of $16.1 million.

Economic Conditions and Outlook

The financial outlook for the 2019-2020 fiscal year remains positive and is expected to be a successful year. The opening of the USF Health Morsani College of Medicine and ongoing Water Street redevelopment of downtown Tampa further strengthens the increasing demand for programming at CAMLS.

The increasing demand at CAMLS is an opportunity to expand its delivery of training services by bringing the training directly to client locations.

Request for Information

This financial report is designed to provide a general overview of HPCC's finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional information should be addressed in writing to the Chief Financial Officer, USF Health Professions Conferencing Corporation, 124 S. Franklin Street, Tampa, Florida 33602.

USF HEALTH PROFESSIONS CONFERENCING CORPORATION

Statement of Net Position

June 30, 2019

Assets		
Current assets:		
Cash and cash equivalents	$	4,361,743
Accounts receivable		1,376,132
Due from USF/DSO		287,590
Prepaid expenses		135,536
Other current assets		25,782
Total current assets		6,186,783
Noncurrent assets:		
Property and equipment, net		17,261,747
Accounts receivable, noncurrent		8,160
Other noncurrent assets		6,650
Total noncurrent assets		17,276,557
Total assets	$	23,463,340
Liabilities		
Current liabilities:		
Capital lease obligations, current portion	$	1,095,655
Accounts payable		510,690
Accrued expenses, other		187,078
Due to USF/DSO's		952,380
Unearned revenue		1,186,926
Other current liabilities		7,880
Total current liabilities		3,940,609
Noncurrent liabilities:		
Capital lease obligations, net of current portion		13,838,758
Other noncurrent liabilities		4,760
Total noncurrent liabilities		13,843,518
Total liabilities		17,784,127
Deferred Inflows of Resources		
Deferred grants		1,540,083
Net Position		
Net investment in capital assets		2,327,334
Operating unrestricted		1,811,796
Total net position		4,139,130
Commitments and related party transactions		
	$	23,463,340

USF HEALTH PROFESSIONS CONFERENCING CORPORATION

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2019

Operating revenues:		
Contracts and grants - non USF	$	9,564,952
Contracts and grants - USF		4,269,575
Program registration and exhibits		2,414,410
Rental revenue		540,639
Investment income		2,814
Rebates and commissions		188,935
Total operating revenues		16,981,325
Operating expenses:		
Program services		8,323,099
Supporting services:		
Salaries and benefits		4,113,996
Rent, utilities and equipment leases		1,589,923
Other operating expenses		669,106
Depreciation expense		1,440,267
Total operating expenses		16,136,391
Operating income		844,934
Nonoperating revenues (expenses):		
Transfers from UMSA		1,060,000
Interest paid on debt		(569,558)
Total net nonoperating revenues		490,442
Increase in net position		1,335,376
Net position, beginning of year		2,803,754
Net position, end of year	$	4,139,130

USF HEALTH PROFESSIONS CONFERENCING CORPORATION

Statement of Cash Flows

Year Ended June 30, 2019

Cash flows from operating activities:	
Programmatic receipts	$ 15,851,020
Facility operations receipts	1,292,976
Rents and rebate receipts	637,117
Total receipts	17,781,113
Programmatic disbursements	(10,232,729)
Staffing disbursements	(4,273,160)
Facility operation disbursements	(516,822)
Total disbursements	(15,022,711)
Net cash provided by operating activities	2,758,402
Cash flows from noncapital and related financing activities:	
Transfers from UMSA	972,000
Net cash provided by noncapital and related financing activities	972,000
Cash flows from capital and related financing activities:	
Purchases of property and equipment	(153,950)
Proceeds on sale of fixed assets	216,840
Principal payments under short term debt obligations	(136,036)
Principal payments under capital lease obligations	(1,034,616)
Interest payments on debt and lease obligations	(569,558)
Net cash used in capital and related financing activities	(1,677,320)
Net increase in cash and cash equivalents	2,053,082
Cash and cash equivalents, beginning of year	2,308,661
Cash and cash equivalents, end of year	$ 4,361,743
Cash and cash equivalents:	
Cash and cash equivalents - checking	$ 3,883,792
Cash and cash equivalents - designated savings	477,951
	$ 4,361,743

(Continued)

USF HEALTH PROFESSIONS CONFERENCING CORPORATION

Statement of Cash Flows - Continued

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	844,934
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		1,440,267
Change in assets and liabilities:		
Accounts receivable		(461,106)
Prepaid expenses		17,458
Deferred charges accrued		(17,086)
Other assets		(18,979)
Accounts payable and accrued expenses		205,804
Refunds and deposits due to sponsors		(28,110)
Unearned revenue		(17,065)
Deferred inflows of resources		792,285
Net cash provided by operating activities	$	2,758,402

(1) Organization

(a) Nature of Entity

USF Health Professions Conferencing Corporation ("HPCC" or "Organization"), a Florida not-for-profit corporation, was incorporated February 7, 2005 and began operations July 1, 2007. HPCC is a direct support organization ("DSO") of the University of South Florida ("USF" or the "University") and was established to provide educational, administrative, logistical and financial services to support the Office of Continuing Professional Development ("OCPD"). The OCPD is committed to sponsoring quality continuing education activities to meet the needs of University faculty, alumni and healthcare professionals practicing throughout the state, nationally and internationally. Many of these activities are now conducted at the USF Health Center for Advanced Medical Learning and Simulation ("CAMLS") which opened in February 2012 in downtown Tampa, Florida. HPCC leases CAMLS from the USF Financing Corporation and is responsible for its day to day operations and programming (see Note 7 for information regarding the related capital lease).

Effective July 1, 2007, the assets, liabilities and net assets of the OCPD were transferred from USF Medical Services Support Corporation ("MSSC"), a direct support organization of the University, to HPCC. The assets, liabilities and net assets were transferred based on June 30, 2007 audited financial information.

Prior to January 1, 2016, all of HPCC's personnel were either employees of MSSC or the University. Effective January 1, 2016, all MSSC employees and related obligations were transferred to University Medical Services Association, Inc. ("UMSA").

(b) Reporting Entity

In defining HPCC for financial reporting purposes, management has applied the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus.* These statements establish the basis for the reporting entity and whether it is considered a component unit of another entity. HPCC would be a component unit of another entity if it is financially accountable to that unit. Financial accountability occurs when an entity appoints a voting majority of the board of the potential component unit and: (1) is able to impose its will on the potential component unit and/or (2) is fiscally dependent and is in a relationship of financial benefit or burden with the potential component unit. An entity would also be considered financially accountable if the potential component unit is fiscally dependent and there is a financial benefit or burden relationship, regardless of whether the entity appoints the voting majority of the potential component unit's board. Chapter 2018-004, Laws of Florida, now requires the prospective approval of all new direct support organization board members. One director shall be selected and appointed by the Chairperson of the University's Board of Trustees. One director shall be either the President of the University or the designee of the President of the University, pursuant to Florida Statutes Section 1004.28(3). The remaining directors will be appointed by the University Senior Vice President for USF Health subject to approval by the University's Board of Trustees effective March 11, 2018. This change in Florida law and control of the Organization's governing body requires the Organization to report on a GASB basis. The Organization also meets the financial accountability criteria necessary to be considered a component unit of the University.

(1) Organization - Continued

(b) Reporting Entity - Continued

Based on the application of these criteria, HPCC is a discretely presented component unit of the University, and its financial balances and activity are reported in the University's Comprehensive Annual Financial Report.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of HPCC conform to accounting principles generally accepted in the United States of America as prescribed by GASB. HPCC financial statements are presented in the form of a single enterprise fund.

(b) Basis of Accounting

The financial statements of HPCC have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

HPCC distinguishes operating revenues and expenses from nonoperating and other items. Operating revenues are those revenues that are generated from the primary operations of HPCC. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of HPCC. All other expenses are reported as nonoperating expenses.

(c) New Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for HPCC's fiscal year beginning July 1, 2020. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for leases based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. HPCC is evaluating the effect GASB Statement No. 87 will have on its financial statements.

(d) Cash and Cash Equivalents

HPCC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(2) Summary of Significant Accounting Policies - Continued

(e) Accounts Receivable

Accounts receivable are recorded at net realizable value. HPCC's policy is to provide an allowance for accounts receivable that are not expected to be collected based on aging of the account and specific review of the customer.

Accounts receivable are charged off against the allowance for doubtful accounts when it is determined that the receivable will not be collected. HPCC does not typically charge interest on past-due receivables and does not require collateral for accounts receivable. The Organization had no allowance for doubtful accounts at June 30, 2019.

(f) Capital Assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of the donation. Property and equipment are depreciated over estimated useful lives ranging from three to forty years using the straight line method.

Costs or donated assets greater than $1,000 are capitalized. The cost of maintenance and repair of capital assets is charged to expense as incurred, while costs of renewals and betterments are capitalized. When capital assets are replaced, retired, or otherwise disposed of, the costs of such capital assets and the related accumulated depreciation are deducted from the respective asset and accumulated depreciation accounts.

(g) Revenue Recognition

Revenues are recognized when the earnings process is substantially complete. CAMLS contractual fees, OCPD participant registrations, exhibitor fees and revenue generated from commercial and institutional grants are recognized when the educational activity has been held or the educational materials have been delivered. Unearned revenues associated with registrations and fees received for contractual programs not yet held, or for educational materials not yet delivered was approximately $1.2 million at June 30, 2019.

(h) Deferred Inflows of Resources

In addition to unearned revenues and other liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets by HPCC that is applicable to a future reporting period and will not be recognized as revenue until that time. Grants received for future programming meets this criterion. Grants received for contractual programs not yet held, or for educational materials not yet delivered were approximately $1.5 million at June 30, 2019.

(2) Summary of Significant Accounting Policies - Continued

(i) Estimates in Financial Statements

The preparation of 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases or decreases in net assets during the period. Actual results could differ from those estimates.

(j) Income Taxes

The Organization is exempt from federal income taxes on income other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code. For the year ending June 30, 2019, the Organization's sole source of unrelated business income was conferencing services. At June 30, 2019, management has evaluated the relevant technical merits of their tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and determined that there are no positions that would have a material impact on the financial statements of HPCC. The Organization's income tax filings for the past three years are subject to examination by taxing authorities, and may change upon examination.

(3) Concentrations of Credit Risk and Significant Customers

Financial instruments that are exposed to concentrations of credit risk consist of cash, investments and accounts receivable. The Organization maintains deposit balances with what management believes to be high credit quality commercial banks. At June 30, 2019, a total of $4,987,430, was held in a government checking and savings account which provided the collateral protection required by State of Florida Statute 280 for amounts in excess of the FDIC insurance limits.

Amounts due from four customers were approximately 42% of total accounts receivable at June 30, 2019. The Organization performs ongoing credit evaluations of its customers, and generally, requires no collateral from them.

Unearned revenue associated with amounts received from one customer was approximately $321,000, or 27% of total unearned revenue, as of June 30, 2019.

(4) Property and Equipment

Property and equipment and related activity as of and for the year ended June 30, 2019 consisted of the following:

	July 1, 2018	Additions	Disposals	June 30, 2019
Furniture and equipment	$ 751,284	9,524	14,562	746,246
Computers	2,036,383	43,852	20,449	2,059,786
Medical equipment	10,188,521	68,068	-	10,256,589
Leasehold improvements	1,599,770	32,506	-	1,632,276
Special use building	20,907,385	-	-	20,907,385
	35,483,343	153,950	35,011	35,602,282
Less accumulated depreciation	(16,935,280)			(18,340,535)
	$ 18,548,063			17,261,747

Depreciation expense was $1,440,267 for the year ended June 30, 2019.

(5) Retirement Plans

The Organization's employees are employed by UMSA or the State of Florida (USF). UMSA employees participate in a defined contribution tax-deferred annuity retirement plan that covers substantially all eligible personnel upon completion of one year of service. USF employees choose between a defined contribution tax-deferred annuity retirement plan or defined benefit pension plan that covers substantially all eligible personnel. Under these plans the Organization contributes at the rate of 3.3% to 7.85% of each eligible individual's total compensation depending on the retirement plan selected. Contribution expense related to the plan was approximately $159,000 for the year ended June 30, 2019.

The Organization's employees can also participate in a voluntary tax-deferred annuity plan. Under this plan, all personnel may make voluntary contributions through the purchase of individual annuity contracts. Both of the retirement plans are sponsored by UMSA.

(6) In-Kind Donations

The Organization receives in-kind support in the furtherance of its objectives. The in-kind support consists principally of training supplies or equipment. In-kind support is recorded at its fair value on the date of donation and expensed when consumed or capitalized and depreciated over its useful life.

(7) Leases

The Organization has several non-cancellable operating leases for office facilities and equipment. Rent expense for the year ended June 30, 2019 was approximately $271,000.

The Organization is also obligated under two capital leases at June 30, 2019. The first capital lease is for certain medical equipment and requires monthly payments of $32,050 through July 2022. Included in the monthly lease payments are amounts paid for services of $12,840. These amounts are expensed each month when paid. The gross amount of equipment and the related accumulated amortization recorded under this capital lease were $1,026,937 and $447,336 respectively, at June 30, 2019.

The second capital lease, signed in December 2010, relates to the Organization's CAMLS facility in Tampa, Florida which was completed in February 2012. As discussed in Note 9, this lease is with a related party, the USF Financing Corporation ("USFFC"). The term of the lease is through June 30, 2051 with lease payments through December 31, 2031 equivalent to the USFFC debt repayment schedule. Subsequent lease payments will be adjusted to an amount mutually agreeable once the debt obligation is satisfied in full. The gross amount of the building and the related accumulated amortization recorded under this capital lease were $20,907,385 and $5,076,329, respectively, at June 30, 2019. During fiscal year 2018 USFFC refinanced the debt associated with CAMLS reducing the net interest rate from 4.01% to 3.51% which in turn reduced the Organization's annual lease payments to approximately $1.52 million through 2031.

The gross amount of the facility and equipment and the related accumulated amortization recorded under capital leases at June 30, 2019 were:

Facility and equipment	$	21,934,322
Accumulated amortization		(5,523,665)
	$	16,410,657

Amortization of the assets held under these capital leases is included in depreciation expense.

At inception of lease, interest rates on capitalized leases are imputed based on the lower of the Organization's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return and range from 3.51% on the facility lease to 4.64% on an equipment lease.

(7) Leases - Continued

The present value of future minimum capital lease payments and future minimum lease payments on non-cancellable operating leases as of June 30, 2019 are as follows:

Year Ending June 30,		Capital Leases	Operating Leases	Total
2020	$	1,622,813	256,416	1,879,229
2021		1,646,505	209,100	1,855,605
2022		1,671,659	154,080	1,825,739
2023		1,467,839	12,840	1,480,679
2024		1,496,193	-	1,496,193
Thereafter		10,542,513	-	10,542,513
Total minimum lease payments		18,447,522	632,436	19,079,958
Less amount representing interest		3,513,109		
Present value of minimum capital lease payments		14,934,413		
Current installments of capital lease obligations		1,095,655		
Capital lease obligations, less current installments	$	13,838,758		

(8) Loan

The Organization signed a loan agreement on March 9, 2017, with Branch Banking and Trust Company for $311,683. The loan was for the acquisition of certain medical equipment and required 3 monthly payments of $100 followed by 21 monthly payments of $15,469 through March 2019. The interest rate in effect on the loan was 3.650%. The loan was paid in full as of June 30, 2019.

(9) <u>Related Party Transactions</u>

In the normal course of business the Organization transacts with the following related parties:

Related Party	Relationship
University of South Florida ("USF" or the "University")	Governing Organization
University Medical Services Association, Inc. ("UMSA")	Direct support organization of Governing Organization
USF Financing Corporation ("USFFC")	Direct support organization of Governing Organization
USF Foundation	Direct support organization of Governing Organization
USF Health & Education International Foundation ("HEIF")	Affiliate of Governing Organization

Summary of Transactions with Related Parties

The significant related party balances and transactions as of and for the year ended June 30, 2019 are summarized and approximated as follows:

Programming, Facility Operations and Support Revenue

The Organization receives contractual funding and transfers for continuing education, training and academic programming.

The summary of transactions related to the Organization's delivery of programming, facility rentals and program registration fees included in Operating revenues, as well as support included in Nonoperating revenues is as follows:

	Amount of Transaction For the Year Ending June 30, 2019	Outstanding Receivable Balance at June 30, 2019
Operating revenue:		
UMSA	$ 618,525	103,836
USF	3,836,491	75,293
USF Foundation	20,383	4,000
HEIF	-	16,461
Nonoperating revenue:		
UMSA	1,060,000	88,000
	$ 5,535,399	287,590

The Organization's financial statements report the financial management of HEIF revenues and expenses at net rather than gross. The gross amount of transactions was approximately $182,000 for the year ended June 30, 2019 of which, HPCC retained $9,723 for financial management services.

(9) Related Party Transactions - Continued

Summary of Transactions with Related Parties - Continued

Outsourcing Services

All of the Organization' personnel are either employees of UMSA or employees of the University. The Organization has entered into service agreements or approved allocations of various support services based on actual usage or cost allocation in the following areas: staffing, personnel services, payroll processing, internal audit, information technology, vivarium services, instructors and other related functions. In addition, HPCC contracts with various USF departments and the net revenues from these activities are either retained by HPCC for use in future programs or paid out.

The summary of transactions arising from the Organization's service agreements and related charges included in operating expenses is as follows:

		Amount of Transaction For the Year	Outstanding Payable Balance at June 30, 2019
UMSA	$	2,390,513	579,811
USF		2,718,082	368,502
HEIF		-	4,067
	$	5,108,595	952,380

Lease Transactions (Organization as Lessee)

The summary of transactions arising from the Organization's capitalized lease agreement allocated between insurance and management fees included in operating expenses and interest included in nonoperating expenses and principal as a reduction of capital lease obligations, net of current portion is as follows:

		Amount of Transaction For the Year	Current Installments of Obligation Under Capital Lease at June 30, 2019	Noncurrent Installments of Obligation Under Capital Lease at June 30, 2019
USFFC	$	1,453,393	890,707	13,399,260

(10) Deferred Inflows of Resources

As of June 30, 2019, deferred inflows of resources relate to the following:

Grants for specific future continuing education program activities	$ 1,540,083

(11) Subsequent Events

The Organization has evaluated subsequent events through October 10, 2019, the date the financial statements were available for issuance, noting no items that required recording or disclosure.

USF HEALTH PROFESSIONS CONFERENCING CORPORATION

Schedule of Functional Expenses

Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Program Services	Management and General	Total Expenses 2019	Total Expenses 2018
Salaries and benefits	$ 2,599,745	1,514,251	4,113,996	3,363,971
Educational partner expenses	4,658,302	-	4,658,302	2,220,223
Materials and supplies	1,194,877	10,721	1,205,598	1,360,147
Support services	242,588	146,232	388,820	365,273
Expendable furniture and equipment	20,196	5,024	25,220	23,867
Brochure design, printing and mailing	126,349	1,163	127,512	248,193
Audio visual, catering and room rentals	619,070	111	619,181	926,207
Honoraria and consultants	710,275	29,017	739,292	838,612
Travel - speakers and staff	493,528	2,428	495,956	510,247
Marketing and development	33,800	-	33,800	21,802
Residuals and refunds to sponsors	615,034	-	615,034	112,392
Utilities, repairs and maintenance	1,322,677	18,574	1,341,251	1,297,415
Facilities rent	-	63,926	63,926	68,345
Equipment leases	189,376	10,989	200,365	247,840
Interest	542,927	26,631	569,558	680,965
Depreciation and amortization	1,410,504	29,763	1,440,267	1,720,266
In-kind	67,871	-	67,871	21,750
Total expenses	$ 14,847,119	1,858,830	16,705,949	14,027,515

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
USF Health Professions Conferencing Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of USF Health Professions Conferencing Corporation (a nonprofit organization), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

MAYER HOFFMAN McCANN P.C.

October 10, 2019
Clearwater, Florida