UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION

(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

COMBINED FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION, AND SINGLE AUDIT REPORT

JUNE 30, 2021 AND 2020

UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND
UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

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JUNE 30, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
University Medical Service Association, Inc. and University of
South Florida Medical Services Support Corporation
(A Component Unit of the University of South Florida)

Report on the Combined Financial Statements
We have audited the accompanying basic 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 "Association" (a component unit of the University of South Florida), as of and for the year ended June 30, 2021 and the related notes to the combined financial statements.

Management's Responsibility for the Combined 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these combined 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 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 auditors' 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 auditors consider internal control relevant to the entity'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 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 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 financial position of the Association as of June 30, 2021 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters
Prior Period Financial Statements
The financial statements of the Association as of and for the year ended June 30, 2020 were audited by other auditors whose report dated October 12, 2020 (except for Note 3, as to which the date is May 5, 2021), expressed an unmodified opinion on those statements.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 13 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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 combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award,* is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such 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 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 November 2, 2021 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Warren Averett, LLC

Tampa, FL
November 2, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of University Medical Service Association, Inc., and University of South Florida Medical Services Support Corporation (collectively, the Association) as of and for the fiscal years ended June 30, 2021 and 2020 and should be read in conjunction with the combined financial statements and notes thereto. The MD&A, and combined financial statements and notes thereto, are the responsibility of the Association's management. The MD&A contains financial activity of the Association for the fiscal years ended June 30, 2021 and 2020.

Statement of Net Position

The Association's assets and deferred outflows of resources totaled $161.2 million and $168.9 million at June 30, 2021 and 2020, respectively.

Current assets consist of $17.3 million and $62.7 million in cash and short-term investments at June 30, 2021 and 2020, respectively and $14.2 million and $9.3 million for patient accounts receivable at June 30, 2021 and, 2020, respectively, less allowances for contractual adjustments and bad debt. Contract and other receivables consist of $74.0 million and $37.8 million at June 30, 2021 and 2020, respectively. Inventory and other current assets consist of $4.2 million and $5.0 million at June 30, 2021 and 2020, respectively. The primary driver for the decrease in cash and increase in other receivables is the $45.3 million receivable for Upper Payment Limit (UPL) supplemental payments. All payments were received in July and August 2021.

Non-current assets primarily consist of $50.7 and $53.5 million of capital assets at June 30, 2021 and 2020, respectively, net of accumulated depreciation.

Current liabilities consist of accounts payable of $21.5 and $56.6 million at June 30, 2021 and 2020, respectively, and accrued salaries and wages, benefits, and other expenses of $20.5 million and $14.5 million at June 30, 2021 and 2020, respectively. Current portion of capital leases and financing obligations is $2.8 million at each June 30, 2021 and 2020. Other liabilities were $800,000 and $2.2 million at June 30, 2021 and 2020, respectively. At the end of fiscal year 2020, UMSA delayed payments to fund its University convenience accounts (described in Note 9) to preserve cash in response to the COVID-19 pandemic. This resulted in $25.0 million in accounts payable at the end of fiscal year 2020, which was repaid in the first quarter of fiscal year 2021.

Non-current liabilities totaled $44.2 million and $46.2 million at June 30, 2021 and 2020, respectively, with most of the long-term obligations in financing obligations for buildings leased and financed through the USF Financing Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Statement of Revenues, Expenses, and Changes in Net Position

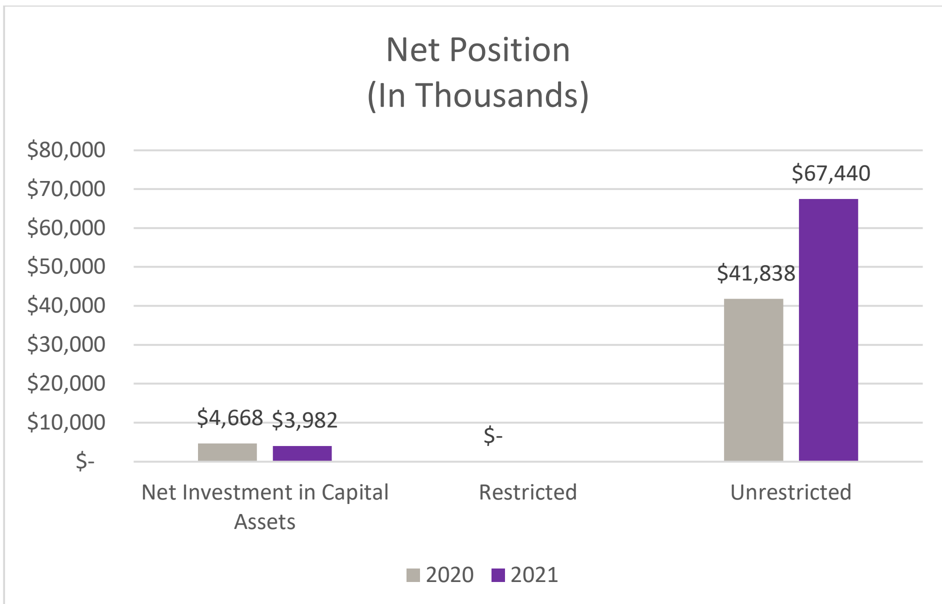
The Association's operating revenues totaled $347.7 million for the 2020-21 fiscal year, consisting of $231.1 million in net patient service revenue, $94.7 million in revenue from contracts, grants, and awards, and $22.0 million in other operating revenue. Operating revenues totaled $304.8 million for the 2019-20 fiscal year, consisting of $204.0 million in net patient service revenue, $79.8 million in revenue from contracts, grants, and awards, and $21.0 million in other operating revenue. The increase in patient service revenues was driven primarily by UMSA's recruitment of several net new physicians. In addition, patient service revenue was significantly lower in the last quarter of fiscal year 2020, but rebounded closer to historical levels in fiscal year 2021. The increase in revenues from contracts, grants and awards was primarily driven by expansion and renegotiation of existing contracts with partner hospitals.

Operating expenses totaled $323.4 million for the 2020-21 fiscal year, consisting of $227.5 million in salaries and wages for faculty and staff, $82.5 million in operating expenses, $1.1 million for malpractice expense, $9.0 million for rent, repairs, and maintenance, and $5.0 million in depreciation and amortization expense. Operating expenses totaled $307.6 million for the 2019-20 fiscal year, consisting of $210.2 million in salaries and wages for faculty and staff, $82.4 million in operating expenses, $3.2 million for malpractice expense, $9.0 million for rent, repairs, and maintenance, and $4.6 million in depreciation and amortization expense. The increase in operating expenses was primarily driven by the recruitment of new faculty and the staff to support them, as well as hazard recognition pay to the practice plan's team members who made significant contributions to the Association's response to the COVID-19 pandemic. Malpractice expenses decreased because USF Health leadership requested a premium holiday for UMSA for 2020-2021 due to continuing financial concerns related to COVID-19, successful SIP claims management (resulting in significant financial savings), and expenses related to the formation of an academic medical group with Tampa General Hospital. The SIP Council approved this request.

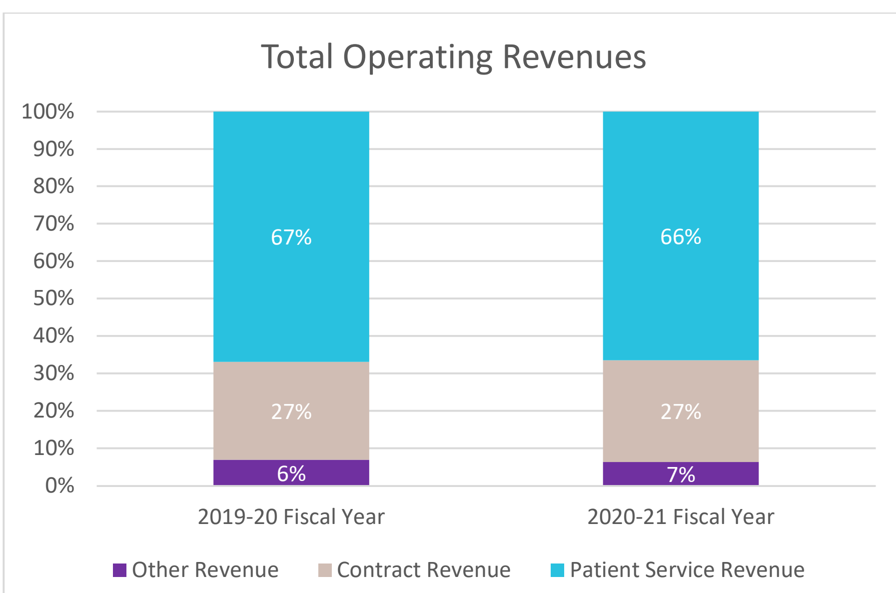
Non-operating revenue and expenses for the 2020-2021 fiscal year consisted primarily of investment income, loss on disposal of capital assets and interest on capital asset related debt. Non-operating revenue and expenses for the 2019-20 fiscal year consisted of investment income, loss on disposal of assets, interest on capital asset related debt, and contributions to the Morsani College of Medicine in the amount of $7.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Net position represents the residual interest in the Association's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The Association's total net position by category at June 30, 2021 and at June 30, 2020 is shown in the following graph:



The following chart provides a graphical presentation of the Association's operating revenues by category for the 2020-21 and 2019-20 fiscal years:



UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND
UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

JUNE 30, 2021 AND 2020

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 35, the Association's financial report consists of three basic combined financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The combined financial statements and notes thereto encompass the Association.

STATEMENT OF NET POSITION

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Association using the accrual basis of accounting and presents the financial position of the Association at a specified time. Assets, plus deferred outflows of resources, less liabilities and deferred inflows of resources equals net position, which is one indicator of the Association's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Association's financial condition.

The following summarizes the Association's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2021 and 2020:

Condensed Combined Statements of Net Position
at June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets	$ 109,802,405	$ 114,764,185
Capital assets, net	50,731,183	53,450,063
Other non-current assets	679,275	679,275
Total assets	$ 161,212,863	$ 168,893,523
LIABILITIES		
Current liabilities	$ 45,572,925	$ 76,200,068
Long term liabilities	44,217,916	46,186,920
Total liabilities	$ 89,790,841	$ 122,386,988
NET POSITION		
Net investment in capital assets	3,982,323	4,668,074
Unrestricted	67,439,699	41,838,461
Total net position	$ 71,422,022	$ 46,506,535

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

The following summarizes the Association's activity for the 2020-21 fiscal year and the 2019-20 fiscal year:

Condensed Combined Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
OPERATING REVENUES	$ 347,708,534	$ 304,809,332
LESS OPERATING EXPENSES	(323,397,022)	(307,634,763)
OPERATING INCOME (LOSS)	24,311,512	(2,825,431)
NONOPERATING EXPENSES (REVENUE), NET	603,975	(7,548,442)
CHANGE IN NET POSITION	24,915,487	(10,373,873)
NET POSITION, BEGINNING OF YEAR	46,506,535	56,880,408
NET POSITION, END OF YEAR	$ 71,422,022	$ 46,506,535

OPERATING REVENUES

GASB Statement No. 35 categorizes revenues as either operating or non-operating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

OPERATING REVENUES – CONTINUED

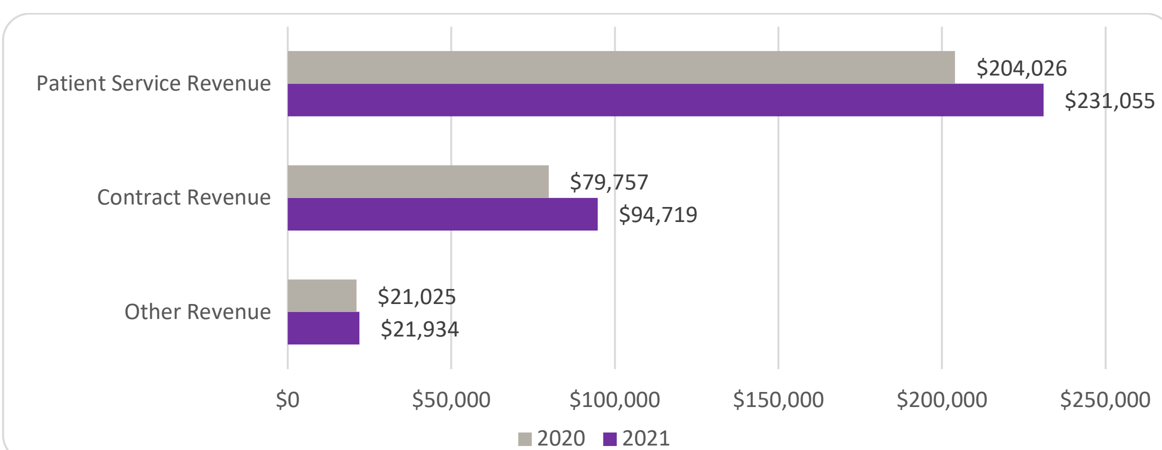
The following summarizes the operating revenues by source that were used to fund operating activities for the 2020-21 fiscal year and the 2019-20 fiscal year:

Operating Revenues
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Patient service revenue, net of contractual allowances and discounts	$ 236,919,118	$ 212,579,638
Provision for bad debts	(5,864,164)	(8,553,290)
Net patient service revenue, less provision for bad debt	231,054,954	204,026,348
GRANTS, CONTRACTS AND AWARDS REVENUE	94,719,197	79,757,487
OTHER OPERATING REVENUE	21,934,383	21,025,497
TOTAL OPERATING REVENUES	$ 347,708,534	$ 304,809,332

The following chart presents the Association's operating revenues for the 2020-21 fiscal year and the 2019-20 fiscal year:

Operating Revenues
(In Thousands)



OPERATING EXPENSES

Expenses are categorized as operating or non-operating. The majority of the Association's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The Association has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position.

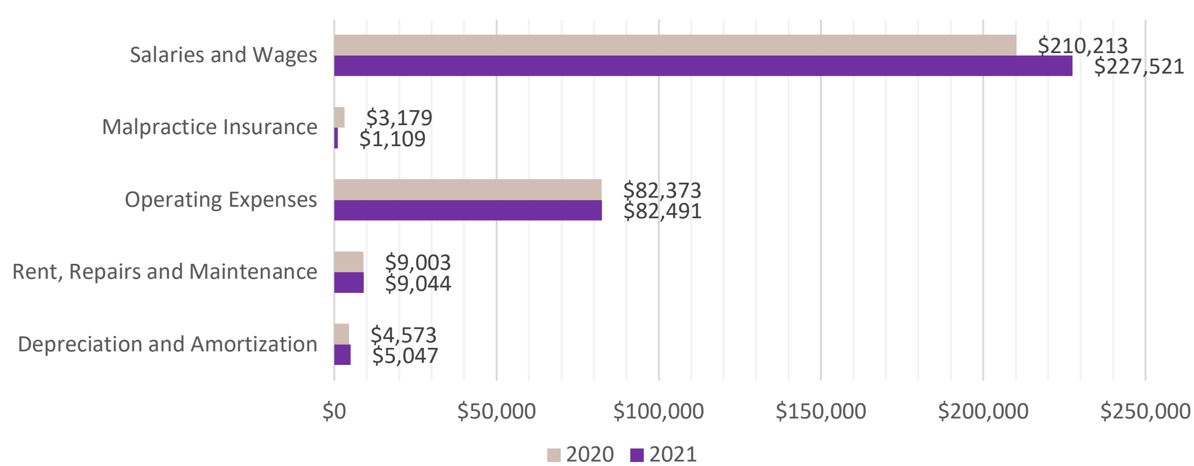
The following summarizes operating expenses by natural classification for the 2020-21 fiscal year and the 2019-20 fiscal year:

Operating Expenses
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
OPERATING EXPENSES		
Contributions on behalf of the Morsani College of Medicine		
Salaries and wages - faculty and staff	$ 227,520,522	$ 210,213,221
Excess FICA refunds	(1,815,443)	(1,706,925)
Malpractice insurance support	1,109,677	3,179,347
Operating expenses	82,491,304	82,372,734
Rent, repairs and maintenance	9,044,277	9,003,119
Depreciation and amortization	5,046,685	4,573,267
Total operating expenses	$ 323,397,022	$ 307,634,763

The following chart presents the Association's operating expenses for the 2020-21 fiscal year and the 2019-20 fiscal year:

Operating Expenses
(In Thousands)



NON-OPERATING REVENUES AND EXPENSES

Certain revenue sources that the Association relies on to provide funding for operations, including certain gifts and grants and investment income, are defined by GASB as non-operating. Non-operating expenses include capital financing costs and other costs related to capital assets. In the fiscal year ended June 30, 2020, the Association made a contribution of $7 million to the Morsani College of Medicine to assist with construction costs related to the new building located in downtown Tampa, which is the primary driver of the variance between fiscal year 2020 and fiscal year 2021.

The following summarizes the Association's non-operating revenues and expenses for the 2020-21 fiscal year and the 2019-20 fiscal year:

Nonoperating Revenues (Expenses)
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
NONOPERATING REVENUES (EXPENSES)		
Investment income, net	$ 3,040,556	$ 1,067,894
Loss on disposal of capital assets	(7,021)	(47,761)
Interest on capital asset related debt	(2,429,310)	(1,566,075)
Other nonoperating expenses	(250)	(7,002,500)
Total nonoperating revenues (expenses)	$ 603,975	$ (7,548,442)

STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the Association's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Association's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the Association. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

STATEMENT OF CASH FLOWS – CONTINUED

The following summarizes cash flows for the 2020-21 fiscal year and the 2019-20 fiscal year:

Condensed Combined Statement of Cash Flows
For the Fiscal Year

	2021	2020
CASH (USED IN) PROVIDED BY		
Operating activities	$ (42,095,135)	$ 33,877,871
Capital and related financing activities	(6,335,580)	(5,833,178)
Investing activities	24,082,668	(1,802,549)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,348,047)	26,242,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	34,996,838	8,754,694
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,648,791	$ 34,996,838

Major sources of funds for the 2020-21 fiscal year came from patient service revenue of $192.3 million and contractual relationships for faculty support and other services of $113.5 million. Major uses of funds for the 2020-21 fiscal year were for payments made to and on behalf of employees totaling $225.1 million and payments to suppliers totaling $122.7 million. Major sources of funds for the 2019-20 fiscal year came from patient service revenue of $172.0 million and contractual relationships for faculty support and other services of $180.6 million. Major uses of funds for the 2019-20 fiscal year were for payments made to and on behalf of employees totaling $252.4 million and payments to suppliers totaling $66.3 million.

CAPITAL ASSETS

At June 30, 2021 and 2020, the Association had $127.0 and $124.8 million in capital assets, respectively, less accumulated depreciation of $76.3 and $71.4 million, respectively, for net capital assets of $50.7 and $53.4 million, respectively. Depreciation charges for the current fiscal year totaled $5.0 and $4.6 million, respectively.

CAPITAL ASSETS – CONTINUED

The following table summarizes the Association's capital assets, net of accumulated depreciation:

Capital Assets, Net at June 30, 2021 and 2020

	2021	2020
Buildings and improvements	$ 45,085,365	$ 46,762,528
Furniture and fixtures	178,237	298,359
Office equipment	98,771	15,627
Computer hardware	611,113	882,530
Computer software	62,869	204,581
Leasehold improvements	1,566,525	1,632,892
Medical equipment	2,984,443	3,573,211
Construction in progress	143,860	80,335
Capital assets, net	$ 50,731,183	$ 53,450,063

Additional information about the Association's capital assets is presented in the notes to the combined financial statements.

DEBT ADMINISTRATION

As of June 30, 2021, the Association had $44.0 million in capital leases payable, net of current portion, consisting of $43.3 million related to building leases and $650,000 related to equipment leases.

As of June 30, 2020, UMSA/MSSC had $45.9 million in capital leases payable, net of current portion, consisting of $45.1 million related to building leases and $792,000 related to equipment leases.

The following table summarizes the outstanding long-term debt by type:

Long-Term Debt at June 30, 2021 and 2020

	2021	2020
Financing obligations, net of current portion	$ 43,347,485	$ 45,154,130
Capital leases, net of current porition	649,876	792,237
Total long term debt	$ 43,997,361	$ 45,946,367

Additional information about the Association's long-term debt is presented in the notes to combined financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The COVID-19 crisis significantly affected the practice plan's patient service revenue in Fiscal Year 2020 and 2021. However, patient demand for services and newly recruited physicians contributed to an increase in patient service revenues in fiscal year 2021. In fiscal years 2021 and 2020, the Association received $4.5 and $4.0 million, respectively, in CARES Act funding related to the COVID-19 crisis. UMSA implemented telehealth in fiscal year 2020 in response to the COVID-19 pandemic and due to patient demand, continued to offer these services in fiscal year 2021, accounting for 14% of UMSA's evaluation and management visits. The Centers for Medicare and Medicaid Services (CMS) and most private insurers continued to pay for telehealth services in fiscal year 2021; however, UMSA will closely monitor CMS payment policies and adjust its service mix accordingly if necessary. While demand for services is high, UMSA has been faced with a competitive labor market. In response, UMSA has made market adjustments to employee compensation and allowed for flexible work arrangements so that many employees can work remotely.

COMMITMENTS

The Association is not aware of any significant commitments other than the leases discussed in Note 8 of the combined financial statements.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and combined financial statements and notes thereto, or requests for additional financial information should be addressed to Alisha Ozmeral, Chief Financial Officer and Associate Executive Director of Support Services, UMSA, Inc., 12901 Bruce B. Downs Blvd, MDC62 – Tampa, FL 33612.

COMBINED FINANCIAL STATEMENTS

UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND
UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

COMBINED STATEMENTS OF NET POSITION

JUNE 30, 2021 AND 2020

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	$ 10,648,791	$ 34,996,838
Short term investments	6,663,503	27,712,886
Patient accounts receivable, less allowances for contractual adjustments	14,255,915	9,263,744
Grants, contracts and awards receivable	10,281,478	9,430,119
Other receivables	63,748,376	28,352,955
Inventory	1,524,412	1,720,456
Other current assets	2,679,930	3,287,187
Total current assets	109,802,405	114,764,185
CAPITAL ASSETS, NET	50,731,183	53,450,063
OTHER NON-CURRENT ASSETS	679,275	679,275
	$ 161,212,863	$ 168,893,523

LIABILITIES AND NET POSITION

	2021	2020
CURRENT LIABILITIES		
Accounts payable	$ 21,494,262	$ 56,612,541
Accrued salaries and wages	8,940,085	7,922,791
Current portion of capital lease obligations	358,983	514,486
Current portion of financing obligations	2,392,516	2,321,136
Current portion of accrued rent	175,527	195,526
Accrued expenses and other liabilities	11,590,464	6,579,193
Unearned revenue	621,088	1,338,353
Other current liabilities	-	716,042
Total current liabilities	45,572,925	76,200,068
LONG-TERM LIABILITIES		
Financing obligations, net of current portion	43,347,485	45,154,130
Capital lease obligations, net of current portion	649,876	792,237
Accrued rent, net of current portion	220,555	240,553
Total long-term liabilities	44,217,916	46,186,920
NET POSITION		
Net investment in capital assets	3,982,323	4,668,074
Unrestricted	67,439,699	41,838,461
Total net position	71,422,022	46,506,535
TOTAL LIABILITIES AND NET POSITION	$ 161,212,863	$ 168,893,523

See notes to the combined financial statements.

UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND
UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of $5,864,164 and $8,553,290 at June 30, 2021 and 2020, respectively	$ 231,054,954	$ 204,026,348
Grants, contracts and awards revenue	94,719,197	79,757,487
Other operating revenue	21,934,383	21,025,497
Total operating revenues	347,708,534	304,809,332
OPERATING EXPENSES		
Contributions on behalf of the Morsani College of Medicine:		
Salaries and wages - faculty and staff	227,520,522	210,213,221
Excess FICA refunds	(1,815,443)	(1,706,925)
Malpractice insurance support	1,109,677	3,179,347
Operating expenses	82,491,304	82,372,734
Rent, repairs and maintenance	9,044,277	9,003,119
Depreciation and amortization	5,046,685	4,573,267
Total operating expenses	323,397,022	307,634,763
OPERATING INCOME (LOSS)	24,311,512	(2,825,431)
NONOPERATING REVENUES (EXPENSES)		
Investment income, net	3,040,556	1,067,894
Loss on disposal of capital assets	(7,021)	(47,761)
Interest on capital asset-related debt	(2,429,310)	(1,566,075)
Other nonoperating expense	(250)	(7,002,500)
Total nonoperating revenues (expenses)	603,975	(7,548,442)
CHANGE IN NET POSITION	24,915,487	(10,373,873)
NET POSITION, BEGINNING OF YEAR	46,506,535	56,880,408
NET POSITION, END OF YEAR	$ 71,422,022	$ 46,506,535

See notes to the combined financial statements.

UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND
UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 192,292,119	$ 172,039,331
Other receipts from operations	113,460,199	180,582,545
Cash paid to employees	(225,142,449)	(252,437,787)
Cash paid to suppliers	(122,705,004)	(66,306,218)
Net cash (used in) provided by operating activities	(42,095,135)	33,877,871
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on building leases	(1,735,265)	(2,244,781)
Principal paid on equipment leases	(571,202)	(431,072)
Proceeds from sale of capital assets	13,379	-
Purchases of capital assets	(1,613,182)	(1,591,250)
Interest payments	(2,429,310)	(1,566,075)
Net cash used in capital and related financing activities	(6,335,580)	(5,833,178)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	3,040,556	1,067,894
Proceeds from sale of investments	21,042,112	-
Purchases of investments	-	(2,870,443)
Net cash provided by (used in) investing activities	24,082,668	(1,802,549)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,348,047)	26,242,144
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	34,996,838	8,754,694
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,648,791	$ 34,996,838
NONCASH FINANCING AND INVESTING ACTIVITIES		
Acquisition of assets under capital leases and debt	$ 893,338	$ 970,884

See notes to the combined financial statements.

UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND
UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 24,311,512	$ (2,825,431)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,046,685	3,606,746
Provision for bad debts	5,864,164	8,553,290
Changes in operating assets and liabilities:		
Patient accounts receivable	(10,856,335)	1,364,237
Grants, contracts and awards receivable	(851,359)	3,245,482
Other receivables	(35,395,421)	21,652,551
Inventory and other current assets	803,301	215,881
Contributions	-	(7,002,500)
Accounts payable	(35,738,279)	8,029,867
Accrued expenses and other liabilities	5,477,859	(3,243,804)
Unearned revenue	(717,265)	155,046
Accrued rent	(39,997)	126,506
Total adjustments	(66,406,647)	36,703,302
Net cash (used in) provided by operating activities	$ (42,095,135)	$ 33,877,871

See notes to the combined financial statements.

1. ORGANIZATION AND SCOPE OF STATEMENTS

University Medical Service Association, Inc. (UMSA) and the University of South Florida Medical Services Support Corporation (MSSC) (collectively, the “Association”) 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 revenues, expenses, and changes in net position.

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 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 currently has no operations.

Effective July 1, 2018, the Association is controlled by the University due to changes in the Florida Statutes, which require prospective approval of all new direct support organization board members by the related university board of trustees other than those members or members appointed by the Trustee Chair or President. Accordingly, effective July 1, 2018, the Association is a governmental entity and is required to present its combined financial statements under accounting principles applicable to governmental units as established by the Governmental Accounting Standards Board (GASB).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Basis of Accounting

For financial reporting purposes, the Association is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the combined financial statements have been presented using the 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. For purposes of presentation, transactions deemed by management

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and operating expenses. All other activities are reported as nonoperating activities. Net position is classified and reported in three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. The Association currently does not have any net position in this category.

- Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Association’s policy to apply those expenses to restricted net position to the extent such is available and then to unrestricted net position.

The Association’s combined financial statements are prepared in accordance with accounting principles applicable to governmental units as established by the GASB and the provisions of the American Institute of Certified Public Accountants *Audit and Accounting Guide, Health Care Entities*, to the extent that they do not conflict with GASB.

Principles of Combination
The combined financial statements for the years ended June 30, 2021 and 2020 are presented on a blended basis as a result of common control, operations, and management of UMSA and MSSC. All intercompany transactions and balances have been eliminated in combination.

Use of Estimates
The accompanying combined financial statements were prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Significant items subject to such estimates include the determination of the allowances for doubtful accounts and contractual adjustments, reserves for employee healthcare claims, accrued professional liability costs, and estimated third-party payor settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

Cash and Cash Equivalents
The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash and 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
Investments consist of money market funds, certificates of deposit with original maturities greater than three months, marketable securities, corporate bonds, and treasury obligations.

The Association classifies all investments maturing within one year of the combined statements of net position, not otherwise designated for long-term use, as current assets. Investments with maturity dates beyond one-year from the combined statements of net position date and other investments designated for long-term use are classified as noncurrent assets.

The Association's investments are stated at fair value (see Note 7 for a discussion of fair value measurements). Purchases and sales of investments 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
Inventory consists primarily of drugs and medical supplies and is stated at the lower of cost or net realizable value, 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. The Association 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, 2021 and 2020.

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 Association's policies. The Association'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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 21.3% and 17.0% of self-pay accounts receivable at June 30, 2021 and 2020, respectively. The Association's self-pay write-offs were approximately $6,682,000 and $8,331,000 for fiscal years ended June 30, 2021 and 2020, respectively.

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 Association'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 Association has not changed its charity care policy during fiscal year 2021 or 2020. The Association 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.

Capital Assets

Capital assets are stated at cost on the date of acquisition. The Association's capitalization policy for assets includes all items with a unit cost of more than $5,000. The Association provides for depreciation using the straight-line method over the following expected useful lives:

Asset Class	Estimated Useful Lives
Buildings and improvements	40 years
Medical and other equipment	5-7 years
Computer hardware and software	3-5 years
Furniture and fixtures	5 years
Leasehold improvements	5 years (or lease term if shorter)

The cost of maintenance and repairs of capital assets 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 Association 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 $8,620,000 and $9,697,000 for the years ended June 30, 2021 and 2020, respectively.

The estimated cost of services and supplies furnished under the Morsani College of Medicine charity care policy totaled approximately $3,146,000 and $3,041,000 for the years ended June 30, 2021 and 2020, respectively, and is estimated based on a ratio of the Association's operational costs to its net revenue.

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 Association 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 Association does not believe that such disallowances, if any, would have a material effect on its financial position. As of June 30, 2021 and 2020, management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

Medicare Advance Payments
The Association received approximately $6,584,000 of advance payments in fiscal year 2020 from Medicare to help minimize the effects of revenue shortfalls due to COVID-19. The advanced payments are considered loans with repayment timelines and terms. In fiscal year 2021, the Association repaid the entire amount of the advance payments.

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 9). 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 Association'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 year ended June 30, 2021, ASF filed for excess FICA overpayments for calendar year 2020 totaling approximately $1,815,000. During the year ended June 30, 2020, ASF filed for excess FICA overpayments for calendar year 2019 totaling approximately $1,707,000. Amounts included in other receivables in the accompanying combined statements of net position as of June 30, 2021 and 2020 are approximately $3,522,000 and $1,707,000, 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.

Included in other operating revenue for the years ended June 30, 2021 and 2020 is $4,562,170 and $4,005,066, respectively, related to funds received under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Association believes it has met all of the requirements under the CARES Act related to these funds.

Accrued Rent
The Association 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 $396,000 and $436,000 as of June 30, 2021 and 2020, respectively.

Concentrations of Credit Risk
Financial instruments, which potentially subject the Association 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 Association maintains its cash and cash equivalents and investments with what management has determined to be high credit quality financial institutions. As of June 30, 2021 and 2020, all of the Association's cash and cash equivalents were held at major financial institutions in the United States.

The Association 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 76.0% and 70.8% of the Association's gross patient accounts receivable as of June 30, 2021 and 2020, respectively. Medicaid represents 3.9% and 2.9% of the Association's gross patient accounts receivable as of June 30, 2021 and 2020, respectively. Medicare represents 10.5% and 13.7% of the Association's gross patient accounts receivable as of June 30, 2021 and 2020, respectively. The credit risk for other concentrations of receivables is limited due to

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 statements of net position.

Deferred Outflows and Inflows of Resources
GASB provides that certain amounts reported on the statement of net position of a governmental entity be reported separately from assets and liabilities and be reported as deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue or a reduction of expense) until that time. Currently, the Association does not have any deferred outflows or inflows.

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 Association 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 Association did not identify any uncertain tax positions as of June 30, 2021 or 2020.

Pending Accounting Pronouncements
In June 2017, the GASB issued Statement No. 87, *Leases.* This statement provides guidance for lease contracts for nonfinancial assets, including vehicles, heavy equipment, and buildings, but excludes nonexchange transactions, including donated assets and leases of intangible assets (such as patents and software licenses). The lease definition now focuses on a contract that conveys control of the right to use another entity's nonfinancial assets, which is referred to in the new Statement as the underlying asset. Under Statement No. 87, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. The requirements of the statement are effective for reporting periods beginning after June 15, 2021 with early adoption permitted. The Association has not adopted this statement early. The Association is still assessing the impact of Statement No. 87 on its financial statements.

Reclassifications
Certain minor reclassifications have been made to the 2020 combined financial statements in order to conform to the classifications used in 2021.

3. RESTATEMENT OF 2020 COMBINED FINANCIAL STATEMENTS

Subsequent to the initial issuance of the June 30, 2020 combined financial statements, the Association became aware of certain unauthorized transactions from at least its fiscal years ended June 30, 2014 through June 30, 2020. The Association determined that its previously issued combined financial statements contained errors resulting from these unauthorized transactions.

As part of the financial statement review associated with the unauthorized transactions, it was determined that, based on subsequent activity, the Association's estimate at June 30, 2020 of amounts due under the Agency for Health Care Administration's additional distribution program (see Note 4, Net Patient Service Revenue) was overstated by approximately $708,000. As a result, the restatement also includes an adjustment related to this matter.

The impacts of the restatement to the June 30, 2020 combined financial statements were as follows: a decrease in net patient service revenue of approximately $708,000, an increase in operating expenses of approximately $2,334,000, a decrease in operating income of approximately $3,042,000, and an increase in the decrease in net position of approximately $3,042,000. In addition, other receivables decreased by approximately $9,568,000, accounts payable increased by approximately $2,948,000 (amounts are due to the University), and unrestricted net position decreased by approximately $12,517,000. There was no impact on net cash used in operating activities or net cash used in capital and related financing activities or investing activities.

4. NET PATIENT SERVICE REVENUE

The composition of net patient service revenue for the years ended June 30, 2021 and 2020 is as follows:

	2021	2020
Gross patient service revenue	$ 592,901,152	$ 561,716,142
Less contractual adjustments	(348,659,435)	(339,589,592)
Less charity care	(7,322,599)	(9,546,911)
Less provision for bad debt	(5,864,164)	(8,553,290)
Net patient service revenues	$ 231,054,954	$ 204,026,349

Payments under various programs are based upon discounts from charges, per diem arrangements, or per case arrangements.

4. NET PATIENT SERVICE REVENUE – CONTINUED

Patient service revenue (net of contractual allowances and discounts) by category for the years ended June 30, 2021 and 2020 is as follows:

	Total Percentage	
Program	**2021**	**2020**
Managed care	70%	72%
Medicare	19%	17%
Medicaid	3%	2%
Private contractual agreements	8%	9%

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, 2021 and 2020, UMSA recognized approximately $39,509,000 and $37,906,000 for payments accrued under this program, respectively. These amounts are included in net patient service revenue in the accompanying combined statements of revenue, expenses, and changes in net position.

5. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB No. 40, *Deposits and Investment Risk Disclosures*, requires certain disclosures regarding policies and practices with respect to deposits and the custodial risk, credit risk, interest rate sensitivity, and foreign investments associated with them.

The custodial credit risk for deposits is the risk that, in an event of a bank failure, the Association's deposits may not be returned. The Association does not have a deposit policy for custodial credit risk. The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. As of June 30, 2021, and 2020, approximately $6,613,000 and $34,823,000, respectively, of the Association's bank balances were in excess of the FDIC limit and were uninsured or uncollateralized.

5. CASH, CASH EQUIVALENTS, AND INVESTMENTS – CONTINUED

A summary of the Association's investments in exchange traded mutual funds is as follows:

	Fair Value 2021	%	Fair Value 2020	%
Fund Type				
Short-term corporate bonds	$ 96,967	1%	$ 9,889,847	36%
Large cap domestic bonds	-	0%	11,035,421	40%
Large cap domestic stocks	3,901,449	59%	4,853,500	18%
Emerging market stocks	1,778,971	27%	1,281,638	4%
Large cap international stocks	886,116	13%	652,480	2%
Total investments	$ 6,663,503	100%	$ 27,712,886	100%

As of June 30, 2021 and 2020, the Association utilized one investment manager. The manager is required to make investments in adherence to the Association's current investment policy and objectives.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to transact, the Association will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The entire balance of the Association's investments is held by the investment manager in the Association's name as of June 30, 2021 and 2020.

The Association's investment strategy utilizes the total return approach with respect to investment returns, which recognizes that total return is comprised of both income and capital gains (realized and unrealized). The primary investment objective is a total portfolio return, which outperforms appropriate market and asset benchmark portfolio returns over a rolling 1, 3, and 5-year time horizon, net of all investment expenses. The secondary objective is a positive rolling 5-year real total return, net of inflation as defined by the Consumer Price Index (CPI), and net of all fund investment and operating expenses.

The Association's investment policy encourages the investment of amounts in short-term and long-term mutual funds, although investments in individual debt and equity instruments are permitted, subject to credit rating (a rating of "A" or better), maturity (less than 30 years for an individual security and less than 10 years for the portfolio as a whole), and concentration (no one equity issuer in excess of 5% of the total of investments and no one debt issuer, other than the U.S. government, in excess of 10% of the total investments) guidelines.

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

5. CASH, CASH EQUIVALENTS, AND INVESTMENTS – CONTINUED

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:

	2021	2020
Interest and dividends	$ 534,404	$ 593,706
Net realized and unrealized gains	2,506,152	474,188
	$ 3,040,556	$ 1,067,894

6. CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows for the year ended June 30, 2021:

	Balance at July 1, 2020	Additions	Disposals	Balance at June 30, 2021
Capital assets not being depreciated:				
Construction in progress	$ 80,335	$ 63,525	-	$ 143,860
Total capital assets not being depreciated	80,335	63,525	-	143,860
Capital assets being depreciated:				
Buildings and improvements	67,086,545	-	-	67,086,545
Medical and other equipment	22,103,804	936,962	(132,608)	22,908,158
Furniture and fixtures	2,639,863	-	(23,187)	2,616,676
Leasehold improvements	4,442,329	1,034,979	-	5,477,308
Computer hardware and software	28,488,463	305,720	(21,533)	28,772,650
Total capital assets being depreciated	124,761,004	2,277,661	(177,328)	126,861,337
Accumulated depreciation:				
Buildings and improvements	(20,324,017)	(1,677,163)	-	(22,001,180)
Medical and other equipment	(18,514,966)	(1,420,062)	110,084	(19,824,944)
Furniture and fixtures	(2,341,504)	(120,122)	23,187	(2,438,439)
Leasehold improvements	(2,809,437)	(1,101,346)	-	(3,910,783)
Computer hardware and software	(27,401,352)	(718,850)	21,534	(28,098,668)
Total accumulated depreciation	(71,391,276)	(5,037,543)	154,805	(76,274,014)
Capital assets, net	$ 53,450,063	$ (2,696,357)	$ (22,523)	$ 50,731,183

6. CAPITAL ASSETS – CONTINUED

Capital asset additions, retirements, and balances are as follows for the year ended June 30, 2020:

	Balance at July 1, 2019	Additions	Disposals	Balance at June 30, 2020
Capital assets not being depreciated:				
Construction in progress	$ 121,975	$ -	$ (41,640)	$ 80,335
Total capital assets not being depreciated	121,975	-	(41,640)	80,335
Capital assets being depreciated:				
Buildings and improvements	67,086,545	-	-	67,086,545
Medical and other equipment	21,201,846	1,538,072	(636,114)	22,103,804
Furniture and fixtures	2,481,911	219,913	(61,961)	2,639,863
Leasehold improvements	3,388,422	1,060,684	(6,777)	4,442,329
Computer hardware and software	28,046,266	751,598	(309,401)	28,488,463
Total capital assets being depreciated	122,204,990	3,570,267	(1,014,253)	124,761,004
Accumulated depreciation:				
Buildings and improvements	(18,646,853)	(1,677,164)	-	(20,324,017)
Medical and other equipment	(17,699,376)	(1,403,971)	588,381	(18,514,966)
Furniture and fixtures	(2,249,090)	(154,375)	61,961	(2,341,504)
Leasehold improvements	(2,341,330)	(474,884)	6,777	(2,809,437)
Computer hardware and software	(26,847,880)	(862,873)	309,401	(27,401,352)
Total accumulated depreciation	(67,784,529)	(4,573,267)	966,520	(71,391,276)
Capital assets, net	$ 54,542,436	$ (1,003,000)	$ (89,373)	$ 53,450,063

Depreciation expense was approximately $5,038,000 and $4,573,000 for the years ended June 30, 2021 and 2020, respectively.

7. 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.

7. FAIR VALUE MEASUREMENTS – CONTINUED

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 Association 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 assets 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.

- Money Market Accounts – Valued at the net asset value ("NAV") of shares held by the Association at year-end.
- 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 Association 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.

At June 30, 2021 and 2020, all of the Association's investments are Level 1.

8. 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 of June 30, 2021 and 2020, total building costs, net of accumulated depreciation, for the South Clinic totaled approximately $12,496,000 and $12,975,000, respectively. The Association paid USFFC approximately $1,021,000 and $1,117,000 during the years ended June 30, 2021 and 2020, 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 of June 30, 2021 and 2020, building costs, net of accumulated depreciation, for the North Clinic totaled approximately $19,330,000 and $20,046,000, respectively. The Association paid USFFC approximately $1,501,000 and $1,619,000 during the years ended June 30, 2021 and 2020, 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

8. LEASES WITH AFFILIATES – CONTINUED

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 of June 30, 2021 and 2020, building costs, net of accumulated depreciation, totaled approximately $13,259,000 and $13,742,000, respectively, including capitalized interest of approximately $102,000. The Association paid USFFC approximately $1,295,000 and $1,370,000 during the years ended June 30, 2021 and 2020, 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.

The principal portion of financing obligations under the leases with affiliates consists of the following:

	2021	2020
Facility lease agreement for South Clinic Facility (SCF); 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 of 2.31% for the duration of July 1, 2016 through July 1, 2026	$ 12,127,725	$ 12,802,050
Facility lease agreement for North Clinic Facility (NCF); 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 of 2.31% for the duration of July 1, 2016 through July 1, 2026	17,817,275	18,807,950
Facility lease agreement for Medical Office Building (MOB); due June 30, 2037; monthly payments based on yearly debt service of Series 2013A Bond Certificates held by USFFC beginning July 1, 2010 through June 30, 2037; effective interest rate of 3.7740%	15,795,001	15,865,266
	45,740,001	47,475,266
Less current maturities	(2,392,516)	(2,321,136)
	$ 43,347,485	$ 45,154,130

8. LEASES WITH AFFILIATES – CONTINUED

Long-term debt activity for the years ended June 30, 2021 and 2020 was as follows:

Building Lease	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Amounts Due Within One Year
SCF	$ 12,802,050	$ -	$ 674,325	$ 12,127,725	$ 690,525
NCF	18,807,950	-	990,675	17,817,275	1,014,475
MOB	15,865,266	-	70,265	15,795,001	687,516
	$ 47,475,266	$ -	$ 1,735,265	$ 45,740,001	$ 2,392,516

Building Lease	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
SCF	$ 13,462,200	$ -	$ 660,150	$ 12,802,050	$ 674,325
NCF	19,777,800	-	969,850	18,807,950	990,675
MOB	16,480,046	-	614,780	15,865,266	656,136
	$ 49,720,046	$ -	$ 2,244,780	$ 47,475,266	$ 2,321,136

The future debt service under these financing obligations as of June 30, 2021 are as follows:

Years Ending June 30,	Principal	Interest	Total
2022	$ 2,392,516	$ 1,346,961	$ 3,739,477
2023	2,550,000	1,274,991	3,824,991
2024	2,620,000	1,201,225	3,821,225
2025	2,690,000	1,125,528	3,815,528
2026	2,760,000	1,047,730	3,807,730
Thereafter	32,727,485	5,757,930	38,485,415
	$ 45,740,001	$ 11,754,365	$ 57,494,366

Interest expense was approximately $2,514,000 and $1,556,000 for the years ended June 30, 2021 and 2020, respectively.

9. TRANSACTIONS WITH AFFILIATES

Expenses totaling approximately $13,923,000 and $12,744,000 during the years ended June 30, 2021 and 2020, 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 Association'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 Association through the funding of the convenience accounts. During the years ended June 30, 2021 and 2020, convenience account funding for salary grants and other operating expenses totaled approximately $50,035,000 and $64,313,000, respectively. As of June 30, 2021 and 2020, 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 balances of approximately $6,059,000 and $29,203,000 at June 30, 2021 and 2020, respectively, are included in accounts payable on the accompanying combined statements of net position.

In addition, the Association has an arrangement under which the University reimburses the Association for certain medical benefit and other expenses incurred by the Association on behalf of medical residents who are students of the Morsani College of Medicine. At June 30, 2021 and 2020, the Association has received cumulative reimbursement from the University in excess of costs incurred under this arrangement of approximately $9,488,000 and $2,948,000, respectively. These amounts are included in accounts payable on the accompanying combined statements of net position.

The clinical component of physician salaries and certain benefits is paid through ASF. The Association has been designated as the agent for this account by the University. Consequently, funding for this account is provided by the Association on a monthly basis. During the years ended June 30, 2021 and 2020, the Association transferred approximately $126,671,000 and $114,715,000, respectively, to ASF for salaries and other related expenses.

The Association 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 Association is to be reimbursed by HPCC for certain costs related to payments made by the Association for payroll, leases, and other administrative support services. As of June 30, 2021 and 2020, the Association has recorded the amount to be reimbursed of approximately $423,000 and $290,000, respectively, as due from HPCC on the accompanying combined statements of net position. During the years ended June 30, 2021 and 2020, the Association paid approximately $414,000 and $333,000, respectively, in payroll costs that will not be reimbursed by HPCC, which are included in operating expenses on the accompanying combined statements of revenues, expenses and changes in net position.

9. TRANSACTIONS WITH AFFILIATES – CONTINUED

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 an 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, the balance of the note was $426,087 and $450,812, respectively.

During the year ended June 30, 2020, the Association made contributions of approximately $7,000,000 to the Morsani College of Medicine to assist with construction costs related to the new building located in downtown Tampa. The contributions are reflected as other non-operating expenses in the accompanying combined statements of revenues, expenses, and changes in net position. No such contributions were made during the year ended June 30, 2021.

The terms and amounts of the above transactions are not necessarily indicative of the terms and amounts that would have been incurred had comparable transactions been entered into with independent parties.

10. CAPITAL LEASES

Capital lease activity for the years ended June 30 was as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Amounts Due Within One Year
Capital lease obligations	$ 1,306,723	$ 273,338	$ (571,202)	$ 1,008,859	$ 358,983

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
Capital lease obligations	$ 826,901	$ 970,884	$ (491,062)	$ 1,306,723	$ 514,486

10. CAPITAL LEASES – CONTINUED

Future minimum lease payments under capital leases as of June 30, 2021 are as follows:

Years Ending June 30,	
2022	$ 386,661
2023	284,026
2024	257,462
2025	109,790
2026	27,832
Total minimum payments	1,065,771
Less amounts representing interest	(56,912)
Present value of net minimum payments	1,008,859
Less current portion	(358,983)
Long-term capital lease obligations	$ 649,876

As of June 30, 2021 and 2020, total assets recorded under capital leases had a cost of approximately $2,692,000 and $3,113,000, respectively. For the years ended June 30, 2021 and 2020, amortization of assets recorded under capital leases was approximately $513,000 and $493,000, respectively, and accumulated amortization was approximately $1,685,000 and $1,792,000 as of June 30, 2021 and 2020, respectively.

11. COMMITMENTS AND CONTINGENCIES

The Association 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, 2021 and 2020 was approximately $3,216,000 and $4,989,000, respectively. Commitments for the Association's noncancelable operating leases with terms in excess of one year, excluding building leases with affiliates (see Note 8) as of June 30, 2021 are as follows:

Years Ending June 30,	
2022	$ 2,843,159
2023	2,044,847
2024	1,854,982
2025	1,901,677
2026	1,764,720
Thereafter	5,937,612
Total minimum lease payments	$ 16,346,997

11. COMMITMENTS AND CONTINGENCIES – CONTINUED

The Association has a self-funded plan for its employees' health insurance program. The Association retains a liability of $200,000 for each individual for the policy year. The Association also retains an annual aggregate liability limit of $11,616,895 for fiscal year 2021. The Association 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, 2021 and 2020, the Association accrued a liability of approximately $471,000 and $459,000, respectively, for claims incurred and claims incurred but not reported.

Laws and regulations governing the current Medicare and Medicaid programs are complex and subject to interpretation. The Association believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened allegations of potential wrongdoing but acknowledges that compliance with such laws and regulations can be subject to future government review and interpretation. Regulatory action could include fines, penalties, and exclusion from certain governmental payor programs, specifically Medicare and Medicaid.

From time to time, the Association may be subject to certain litigation and claims in the normal course of operations. It is the opinion of management that there are no current outstanding claims for which the ultimate outcome will have a material adverse impact on the Association's financial position.

12. REGULATORY COMPLIANCE

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

13. 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 has statutorily provided sovereign immunity pursuant to Chapter 768.26 of the Florida Statutes. For the years ended June 30, 2021 and 2020, the Association paid approximately $1,110,000 and $3,179,000, respectively, to the University of South Florida Self-Insurance Program on behalf of the Morsani College of Medicine.

14. 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 System (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.

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.

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 Billings Component (EPIC PB) and related services as described in the Fourth Amendment. EPIC PB replaced the Association's current billing software with a go-live date of July 1, 2019. The Fourth Amendment calls for TGH to contribute up to 85% of the implementation costs and UMSA will be responsible for 15% of the implantation costs. 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.

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.

The contributed use of the software and related costs incurred by TGH have not been reflected in the accompanying combined financial statements.

15. RETIREMENT PLANS

The Association 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 Association contributes at an approved rate of each eligible individual's total compensation. Contribution expense under the Plan amounted to approximately $2,167,000 and $2,143,000 for the years ended June 30, 2021 and 2020, respectively, and is included in faculty and staff salary support in the accompanying combined statements of revenue, expenses and changes in net position.

The Association 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

16. SUBSEQUENT EVENTS

The Association has evaluated events and transactions for potential recognition or disclosure in the combined financial statements through November 2, 2021, the date on which the combined financial statements were available to be issued.

Effective October 1, 2021, the Association entered into an enhanced affiliation agreement with TGH and Academic Medical Group, Inc. (AMG). AMG is a nonprofit organization that is governed by TGH and USF. Through AMG, USF and TGH will operate a collective physician enterprise as a clinically integrated medical group. In connection with the agreement, USF/UMSA will provide professional services in the form of providers with specialized medical knowledge and skills to provide certain health care services for AMG. In exchange for these services, UMSA will be paid amounts as outlined in the enhanced affiliation agreement

Also effective October 1, 2021, the Association entered into an asset sale and sub-lease agreement with TGH for equipment and space at the North Clinic Facility which is currently being leased from USFFC (See Note 8). Under the terms of the agreement, the Association sold equipment and inventory to TGH for a purchase price of $2,344,225, plus the fair value of inventory on the closing date. The Association also entered into a lease agreement with TGH whereby TGH is subleasing the space at the North Clinic Facility for a period of ten years, with two optional renewal periods of five years each. Base rent under the agreement is approximately $198,000 per month, with annual increases based on the Consumer Price Index.

SINGLE AUDIT REPORT

Warren Averett
CPAs AND ADVISORS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
University Medical Service Association, Inc. and
University of South Florida Medical Services
Support Corporation (A Component Unit of
the University of South Florida)

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 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 "Association"), (a component unit of the University of South Florida), as of and for the year ended June 30, 2021, and the related notes to the combined financial statements, which collectively comprise the Association's basic combined financial statements, and have issued our report thereon dated November 2, 2021.

Internal Control Over Financial Reporting
In planning and performing our audit of the combined financial statements, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 2021-1, 2021-2, and 2021-3 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 2021-4 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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 combined financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as Item 2021-1.

Response to Findings

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's responses were not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on them.

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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Warren Averett, LLC

Tampa, Florida
November 2, 2021

Warren Averett
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
University Medical Service Association, Inc. and University of
South Florida Medical Services Support Corporation
(A Component Unit of the University of South Florida)

Report on Compliance for Each Major Federal Program
We have audited the University Medical Service Association, Inc. (a nonprofit organization) and University of South Florida Medical Services Support Corporation's (a nonprofit organization), (collectively, the "Association"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2021. The Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program
In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance
Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Warren Averett, LLC

Tampa, Florida
March 28, 2022

UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing No.	Award Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
COVID-19 Provider Relief Fund	93.498	N/A	$ 4,005,066
COVID-19 Uninsured COVID Testing and Treatment	93.461	N/A	529,167
Total U.S. Department of Health and Human Services			4,534,233
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 4,534,233

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2021

1. GENERAL

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of University Medical Service Association, Inc. (a nonprofit organization) and University of South Florida Medical Services Support Corporation (a nonprofit organization), collectively, the “Association,” (a component unit of the University of South Florida) under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Association.

2. BASIS OF ACCOUNTING

The Association maintains its accounting records in accordance with the economic resources measurement focus and the accrual basis of accounting. The Schedule is presented using the same basis of accounting.

The amounts presented on the Schedule for Assistance Listing 93.498, COVID-19 Provider Relief Fund (PRF), are based on the Period 1 PRF report submission to the PRF reporting portal. Amounts included in the Period 1 submission represent amounts received between April 10, 2020 and June 30, 2020.

3. INDIRECT COST RATE

The Association elected to charge a de minimis rate of 10% for all federal awards.

4. PROGRAM CLUSTERS

The U.S. Office of Management and Budget *Compliance Supplement* defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. There were no programs that met this criterion for the current fiscal year.

5. CONTINGENCY

The grant revenue accounts are subject to audit and adjustment. If any expenditures or expenses are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grant agencies would become a liability of the Association. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

6. SUBRECIPIENTS

The Association did not provide federal awards to any subrecipients during the year ended June 30, 2021.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2021

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified"	✓	Yes		No
Significant deficiency(ies) identified not Considered to be material weaknesses?	✓	Yes		No
Noncompliance material to financial statements noted?		Yes	✓	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified"		Yes	✓	No
Significant deficiency(ies) identified not Considered to be material weaknesses?		Yes	✓	None noted
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?		Yes	✓	No

Identification of major programs and type of auditors' report issued on compliance for major program:

Federal Program	Listing No.	Opinion Type
COVID-19 Provider Relief Fund	93.498	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs $ 750,000

Auditee qualified as low-risk auditee		Yes	✓	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2021-1: Alleged Embezzlement

During December of 2020, UMSA conducted an investigation into the potential embezzlement of funds. UMSA was assisted by outside counsel, a consulting company, and the University of South Florida's internal audit department. The investigation concluded that an employee used corporate credit cards to make personal purchases and concealed the transactions as legitimate business expenses on UMSA's books and records. The investigation uncovered a multi-million dollar embezzlement that occurred over a six-year period. The investigation is ongoing, but the employee was put on administrative leave, then terminated in December of 2020.

Views of Responsible Officials and Corrective Actions

1) UMSA Finance and Accounting Managers and Director level positions no longer have the ability to post entries to the general ledger. UMSA also upgraded its CODA general ledger system to the software's most current version in September 2021. Phase 2 of the upgrade will include journal entry approval workflows and is scheduled to be completed in fiscal year 2022.

2) The UMSA CFO and UMSA Director of Finance are now listed as administrators on the credit card platform and do not have access to any UMSA corporate credit cards.

3) UMSA Finance and Accounting updated the organization's signature authorization and expenditure policy to align more closely with the University of South Florida and will continue to review the policy annually.

4) The format of the balance sheet reconciliations has changed so that month over month changes can be easily reviewed and journal entry detail behind changes in the balance can be reviewed. The Director of Finance and Accounting is reviewing all balance sheet reconciliations prepared by staff accountants along with supporting documentation. In fiscal year 2022, UMSA will explore balance sheet reconciliation software products that will electronically document the preparation and review of balance sheet reconciliations.

5) UMSA has reviewed access to its general ledger system, as well as banking portals to ensure segregation of duties and the minimum access needed to perform required duties.

6) Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process. Documentation may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in paper form, electronic files, or other media.

SECTION II – FINANCIAL STATEMENT FINDINGS SECTION (CONTINUED)

7) The organization immediately closed the UMSA administrative corporate credit card that was used to incur personal charges. UMSA also implemented a procedure to include additional review of credit card statements. All statements are now reviewed and signed by six separate individuals, including the reconciliation preparer, cardholder, cardholder's supervisor, UMSA Accounts Payable Supervisor, UMSA CFO, and the USF Health CFO.

8) The vendor master file will be reviewed quarterly by the UMSA Director of Finance and Accounting and the new upgrade to our CODA accounting system will provide a report of all changes made to the vendor master file. In addition, all vendors are screened through the Compliance Office's Sanction Check software before they are loaded into the AP system.

Finding 2021-2: Assessment of Finance Department Needs

With the recent departure of personnel, UMSA's Finance Department has lost institutional knowledge and appears understaffed. In order to ensure the Finance Department is adequately staffed, and to properly implement the suggestions contained herein, management should perform an assessment of the organizational structure of the Finance Department and reorganize the department in a manner that will provide for maximum, yet practical, segregation of duties. In connection with this reorganization, we recommend the preparation of a staffing plan and position guides that will clearly define and describe the authority and responsibilities of the various positions. Responsibilities should be aligned with competencies. We recommend UMSA consider hiring appropriately experienced personnel to assist with all of the day-to-day accounting, including accounting for all major process areas, supervising accounting clerical personnel, preparing monthly financial statements, and preparing annual financial statements in accordance with generally accepted accounting principles. All reports and financial information should be reviewed on a regular basis by upper-level management, and summarized information should be reviewed on a regular basis by the Audit Committee.

Views of Responsible Officials and Corrective Actions

UMSA's Finance Department currently has a staffing plan with aligned duties that will allow for proper segregation of duties, backup roles, proper reviewing, increased efficiencies, and increased internal controls. Since UMSA's Finance Department is transitioning to USF employment, we have worked with both USF and UMSA's human resources teams to map the current UMSA positions to USF positions and have updated the pay scale to be competitive in the current market. We are actively recruiting for four open positions that will fulfill the staffing plan.

SECTION II – FINANCIAL STATEMENT FINDINGS SECTION (CONTINUED)

Finding 2021-3: Financial Reporting

There were several material adjustments identified during the conduct of the 2021 audit. Many of these were due to the condensed timeline of the 2021 audit and understaffing noted in Finding 2021-2. Management submitted the trial balance before year-end procedures were complete. As a result, some statement of net position reconciliations were not complete before audit procedures began. In order to ensure the financial reports generated by the accounting system are accurate, UMSA should staff its finance team appropriately so that all major statement of net position accounts from the general ledger reconcile to supporting documentation, including subsidiary ledgers, in a timely manner on a monthly basis. Additionally, all journal entries should be recorded in a timely manner.

Views of Responsible Officials and Corrective Actions

Due to the loss of key people who were responsible for the prior year audit, as well as reconciliation of the statement of net position accounts, the account reconciliations were either not done or not done accurately with adequate supporting documentation. The prior year audit workpapers also lacked adequate supporting documentation. At the start of the audit field work, many of the account reconciliations were not yet complete. Throughout the field work, the reconciliations were addressed, and journal entries were made to correct the balances. This was not only a result of the completion of the reconciliations but also done as questions were posed by the auditors. This process was extremely time consuming, particularly for an understaffed accounting team, as many prior year reconciliations were insufficient and required research in archived files. The reconciliation format of the major statement of net position accounts has also been updated to be effective at the beginning of the next fiscal year. This format will allow for better review and requires signature of both preparer and reviewer. Due to time constraints, the current year reconciliations were not reformatted.

Finding 2021-4: Update of Policies and Procedures

The change in auditors, coupled with turnover in personnel, brought to light that UMSA's policies and procedures documentation needs to be updated. Current management did not have access to all narratives and written policies and procedures provided to external auditors in the past and struggled to provide narratives to describe the significant accounting processes. We recommend that UMSA institute a program to methodically identify and document its significant operational and accounting processes. Processes include activities and procedures involved in repeatable operational or accounting transactions or events, such as hiring new employees, recording revenue and accounts receivable, paying invoices, processing payroll, preparing journal entries, etc.

SECTION II – FINANCIAL STATEMENT FINDINGS SECTION (CONTINUED)

Accounting processes, in particular, are procedures to initiate, authorize, record, process, and report transactions and involve activities such as:

- Capturing, sorting, and merging data
- Making calculations
- Updating transactions and master files
- Generating transactions
- Summarizing and displaying or reporting data
- Correcting and reprocessing previously rejected transactions
- Correcting erroneous transactions through adjusting journal entries

Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process. Documentation may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in paper form, electronic files, or other media.

Views of Responsible Officials and Corrective Actions
The recent turnover in UMSA's Finance and Accounting team's management has reinforced the need for updated policies, procedures, and overall notes and documentation. The team has started increasing documentation at the account reconciliation and transaction level. Each procedural worksheet and account reconciliation has a "Notes" tab to explain the purpose, documents needed, contacts, as well as supporting documentation. We have documented key current processes and identified several areas that need process improvements. We are recruiting a team member with the intention of focusing on those process improvements. Included in the desired improvements will be a focus on internal controls, efficiencies, automation, validation, and ultimately the documentation of those new processes.

SECTION III – FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS SECTION

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to major federal programs that are required to be reported in accordance with the Uniform Guidance.

None

UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND
UNIVERSITY OF SOUTH FLORIDA MEDICAL SERVICES SUPPORT CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF SOUTH FLORIDA)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2021

SECTION I – PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

No financial statement audit findings in the prior year.

SECTION II – PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDITS

No major federal award program findings in the prior year.