

**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 AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2023**



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The report accompanying this deliverable was issued  
by Warren Averett, LLC.

**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, 2023**

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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)

### Opinion

We have audited the accompanying combined financial statements of University Medical Service Association, Inc. (a nonprofit organization) and University of South Florida Medical Services Support Corporation (a nonprofit organization), (collectively the "Association"), (a component unit of the University of South Florida), which comprise the combined statement of net position as of June 30, 2023 and the related combined statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the combined financial statements.

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, 2023 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Correction of Error

As discussed in Note 17 to the combined financial statements, certain errors related to the accounting for a contract with the University of South Florida prior to July 1, 2022 were discovered by management. Accordingly, an adjustment has been made to net position as of July 1, 2022 to correct the error. Our opinion is not modified with respect to this matter.

### Emphasis of Matter

As discussed in Note 2 to the combined financial statements, in 2023, the Association adopted new accounting guidance for subscription-based information technology arrangements. The guidance requires entities to recognize an asset and corresponding liability for all subscription-based information technology arrangements with terms greater than 12 months. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditors' Responsibilities for the Audit of the Combined Financial Statements**

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 4 through 14 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2023 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, Florida  
October 12, 2023

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

**UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

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**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, 2023 and 2022 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. Effective July 1, 2021, the Association adopted GASB Statement No. 87, *Leases*. Effective July 1, 2022, the Association adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("SBITAs"). These statements established a single model of accounting for leases and SBITAs based on the principle that the agreements are financings of the right-of-use of underlying assets. While there was no impact to the Association's net position as a result of the adoption of these statements, it did result in adjustments to its assets, liabilities, revenues, and expenses.

Statement of Net Position

The Association's assets and deferred outflows of resources totaled \$218.8 million and \$237.7 million at June 30, 2023 and 2022, respectively.

Current assets consist of \$47.8 million and \$51.0 million in cash and short-term investments at June 30, 2023 and 2022, respectively, and \$17.1 million and \$13.2 million for patient accounts receivable at June 30, 2023 and 2022, respectively, less allowances for contractual adjustments and bad debt. Contract and other receivables consist of \$57.7 million and \$80.7 million at June 30, 2023 and 2022, respectively. Other receivables include a \$27.5 million and \$49.9 million receivable for Upper Payment Limit (UPL) supplemental payments at June 30, 2023 and 2022, respectively. Inventory and other current assets consist of \$3.9 million and \$4.7 million at June 30, 2023 and 2022, respectively.

Non-current assets primarily consist of \$71.4 million and \$64.8 million of capital assets at June 30, 2023 and 2022, respectively, net of accumulated depreciation. In addition, at June 30, 2023 and 2022, \$18.3 million and \$20.9 million, respectively, of non-current lease receivables are due to the adoption of GASB No. 87, as the Association is leasing certain facilities to third parties under long-term lease agreements.

Current liabilities consist of accounts payable of \$19.3 million and \$12.9 million at June 30, 2023 and 2022, respectively, and \$16.8 million due to USF for an intergovernmental transfer related to the UPL supplemental payment receivable in 2022, as well as accrued salaries and wages, benefits, and other expenses of \$5.0 million and \$6.5 million, respectively. Current portion of leasing, subscription and financing obligations is \$5.8 million and \$4.9 million at June 30, 2023 and 2022, respectively. Other liabilities were \$10.8 million and \$15.6 million at June 30, 2023 and 2022, respectively.

Non-current liabilities totaled \$56.9 million and \$54.3 million at June 30, 2023 and 2022, respectively, with most of the long-term obligations in financing obligations for buildings leased and financed through the USF Financing Corporation, as well as obligations under subscription-based information technology arrangements.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

During the year ended June 30, 2023, management determined that it had not properly accounted for a contract with the University of South Florida (USF). The contract was reviewed, and proper accounting was determined and confirmed with USF. This error resulted in an increase to net position as of July 1, 2022 of approximately \$3,356,000. The amount recorded as Due to USF and included in accounts payable on the combined statement of net position as of June 30, 2022 was overstated by approximately \$3,356,000. The Association restated its net position as of July 1, 2022 to correct the accounting for this contract.

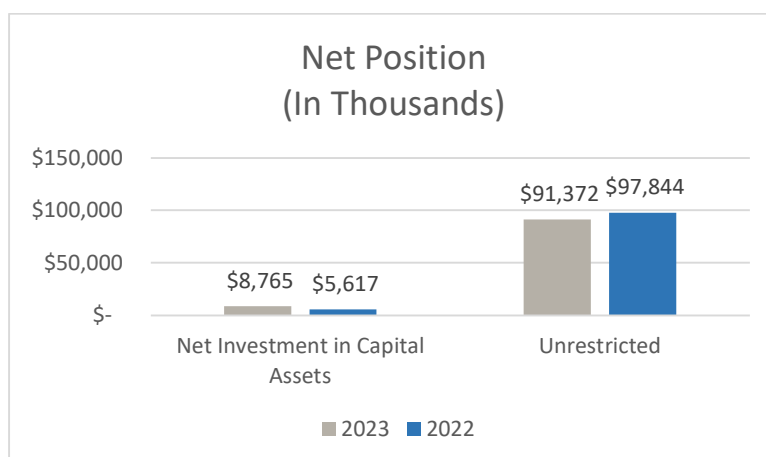
Statement of Revenues, Expenses, and Changes in Net Position

The Association’s operating revenues totaled \$369.4 million for the 2022-2023 fiscal year and \$376.7 million for the 2021-2022 fiscal year, consisting of \$232.6 million and \$230.6 million in net patient service revenue at June 30, 2023 and 2022, respectively, \$113 million and \$100 million in revenue from contracts, grants, and awards, respectively, and \$23.8 million and \$46.1 million in other operating revenue, respectively.

Operating expenses totaled \$362.4 million for the 2022-2023 fiscal year and \$341.9 million for the 2021-2022 fiscal year, consisting of \$284.7 million and \$250.8 million in salaries and wages for faculty and staff at June 30, 2023 and 2022, respectively, \$64.2 million and \$78.7 million in operating expenses, respectively, \$1.1 million and \$1.2 million for malpractice expense, respectively, \$5.2 million and \$5.1 million for rent, repairs, and maintenance, respectively, and \$7.1 million and \$6.1 million in depreciation and amortization expense, respectively.

Non-operating revenue and expenses for the 2022-2023 fiscal year consisted primarily of investment income, losses on disposal of capital assets, interest on capital asset-related debt, and contributions to the University of South Florida.

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, 2023 and 2022 is shown in the following graph:



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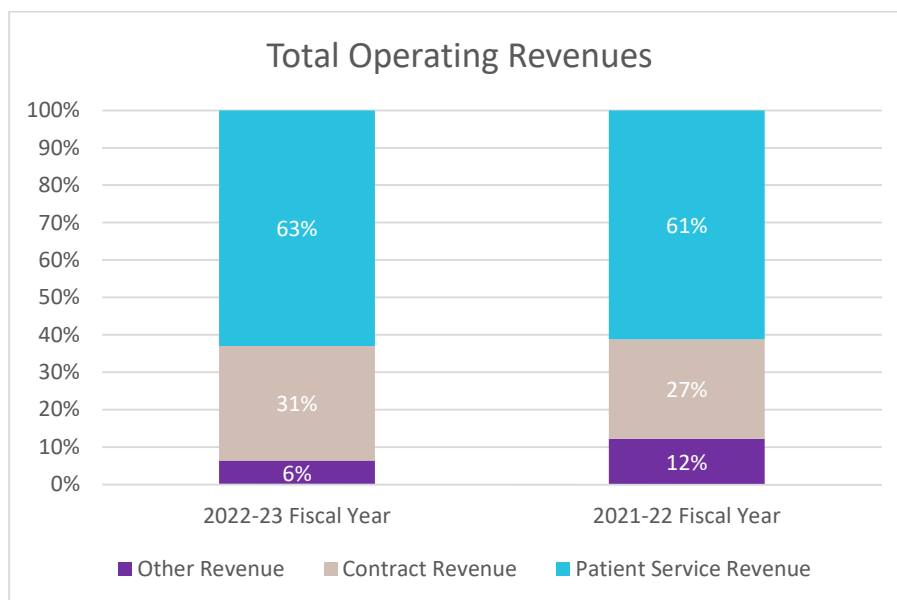
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

The following chart provides a graphical presentation of the Association's operating revenues by category for the 2022-2023 and 2021-2022 fiscal years:



**UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**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, 2023 and 2022:

**Condensed Combined Statements of Net Position at June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Current assets	\$ 129,021,710	\$ 151,993,937
Capital assets, net	71,394,607	64,805,801
Other non-current assets	<u>18,340,692</u>	<u>20,872,646</u>
<b>TOTAL ASSETS</b>	<u>\$ 218,757,009</u>	<u>\$ 237,672,384</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 40,888,644	\$ 56,638,690
Long term liabilities	<u>56,858,407</u>	<u>54,286,271</u>
Total liabilities	<u>97,747,051</u>	<u>110,924,961</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>20,872,645</u>	<u>23,286,014</u>
<b>NET POSITION</b>		
Net investment in capital assets	8,765,239	5,617,445
Unrestricted	<u>91,372,074</u>	<u>97,843,964</u>
Total net position	<u>100,137,313</u>	<u>103,461,409</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<u>\$ 218,757,009</u>	<u>\$ 237,672,384</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**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 2022-2023 and 2021-2022 fiscal years:

**Condensed Combined Statements of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>OPERATING REVENUES</b>	\$ 369,444,374	\$ 376,694,630
<b>LESS OPERATING EXPENSES</b>	(362,411,359)	(341,891,835)
<b>OPERATING INCOME</b>	7,033,015	34,802,795
<b>NONOPERATING EXPENSES, NET</b>	(10,357,111)	(2,763,408)
<b>CHANGE IN NET POSITION</b>	(3,324,096)	32,039,387
<b>NET POSITION, BEGINNING OF YEAR</b>	103,461,409	71,422,022
<b>NET POSITION, END OF YEAR</b>	\$ 100,137,313	\$ 103,461,409

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**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.

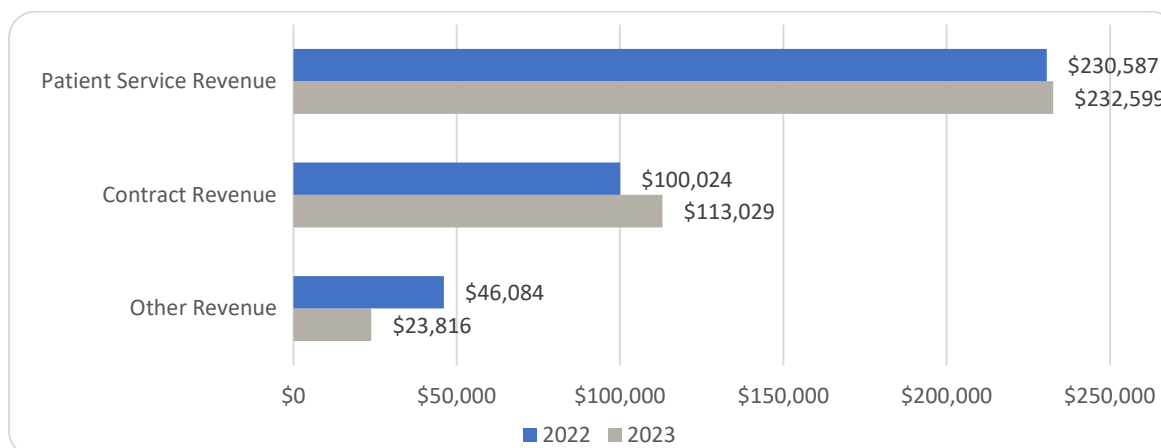
The following summarizes the operating revenues by source that were used to fund operating activities for the 2022-2023 and 2021-2022 fiscal years:

**Operating Revenues  
For the Fiscal Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>OPERATING REVENUES</b>		
Patient service revenue, net of contractual allowance and discounts	\$ 239,375,202	\$ 237,151,946
Provision for bad debts	(6,775,857)	(6,564,623)
Net patient service revenue, less provision for bad debt	232,599,345	230,587,323
<b>GRANTS, CONTRACTS AND AWARDS REVENUE</b>	113,028,736	100,023,556
<b>OTHER OPERATING REVENUE</b>	23,816,293	46,083,752
<b>TOTAL OPERATING REVENUES</b>	\$ 369,444,374	\$ 376,694,630

The following chart presents the Association's operating revenues for the 2022-2023 and 2021-2022 fiscal years:

**Operating Revenues  
(In Thousands)**



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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**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.

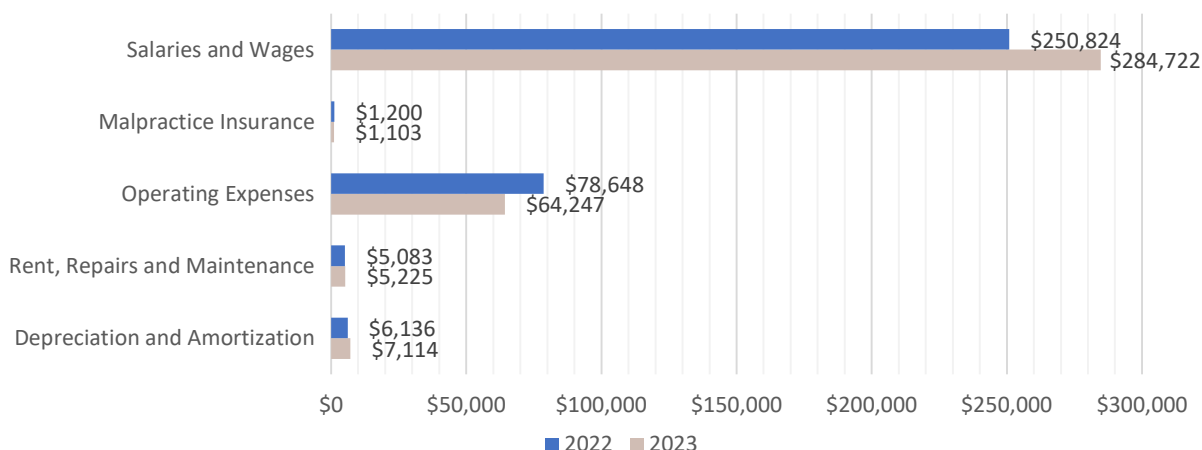
The following summarizes operating expenses by natural classification for the 2022-2023 and 2021-2022 fiscal years:

**Operating Expenses  
For the Fiscal Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>OPERATING EXPENSES</b>		
Contributions on behalf of the Morsani College of Medicine:		
Salaries and wages - faculty and staff	\$ 286,777,167	\$ 252,760,836
Excess FICA refunds	(2,055,175)	(1,937,392)
Malpractice insurance support	1,102,758	1,200,370
Operating expenses	64,247,382	78,648,332
Rent, repairs and maintenance	5,225,373	5,083,402
Depreciation and amortization	7,113,854	6,136,287
 Total operating expenses	 \$ 362,411,359	 \$ 341,891,835

The following chart presents the Association's operating expenses for the 2022-2023 and 2021-2022 fiscal years:

**Operating Expenses  
(In Thousands)**



**UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**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. UMSA sold its Ambulatory Surgery Center and Imaging Centers in September and November 2021, respectively. These sales resulted in \$2.5 million in gains on sales of capital assets in fiscal year 2021-2022. In fiscal year 2022-2023, the Association made contributions to USF to fund investments in future research recruits.

The following summarizes the Association's non-operating revenues and expenses for the 2022-2023 and 2021-2022 fiscal years:

**Nonoperating Revenues (Expenses)  
For the Fiscal Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income (losses), net	\$ 2,294,848	\$ (2,904,178)
(Loss) gain on disposal of capital assets	(43,852)	2,454,044
Interest on capital asset related debt	(2,588,567)	(2,295,024)
Contributions to University of South Florida and related entities	(10,276,608)	-
Other nonoperating revenues (expenses)	257,068	(18,250)
Total nonoperating expenses, net	\$ (10,357,111)	\$ (2,763,408)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**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 capital assets 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.

The following summarizes cash flows for the 2022-2023 and 2021-2022 fiscal years:

**Condensed Combined Statements of Cash Flows  
For the Fiscal Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>CASH PROVIDED BY</b>		
Operating activities	\$ 17,451,654	\$ 43,766,553
Noncapital financing activities	(10,276,608)	-
Capital and related financing activities	(12,894,067)	(7,612,389)
Investing activities	257,068	(19,605,255)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(5,461,953)	16,548,909
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	27,197,700	10,648,791
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 21,735,747	\$ 27,197,700

Major sources of funds for the 2022-2023 fiscal year came from patient service collections of \$250.7 million and contractual relationships for faculty support and other services of \$134.5 million. Major uses of funds for the 2022-2023 fiscal year were for payments made to and on behalf of employees totaling \$286.2 million and payments to suppliers totaling \$81.6 million. Major sources of funds for the 2021-2022 fiscal year came from patient service collections of \$227 million and contractual relationships for faculty support and other services of \$137.6 million. Major uses of funds for the 2021-2022 fiscal year were for payments made to and on behalf of employees totaling \$254.1 million and payments to suppliers totaling \$66.7 million.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

**CAPITAL ASSETS**

At June 30, 2023 and 2022, the Association had \$120.0 million and \$125.6 million in capital assets, less accumulated depreciation of \$48.6 million and \$60.8 million, respectively, for net capital assets of \$71.4 million and \$64.8 million, respectively. Depreciation charges totaled \$7.1 million and \$6.1 million for 2023 and 2022, respectively

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

**Capital Assets, Net at June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 41,731,037	\$ 43,408,201
Furniture and fixtures	285,527	263,632
Office equipment	231,282	290,498
Computer hardware and software	171,800	400,989
Leasehold improvements	3,555,336	1,991,913
Medical equipment	2,128,274	2,160,200
Construction in progress	1,868,651	1,055,210
Right-of-use assets - equipment	70,183	97,174
Right-of-use assets - buildings	13,055,250	15,137,984
Subscription-based information technology arrangements	<u>8,297,267</u>	<u>-</u>
Capital assets, net	<u>\$ 71,394,607</u>	<u>\$ 64,805,801</u>

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

**UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**JUNE 30, 2023 AND 2022**

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**DEBT ADMINISTRATION**

As of June 30, 2023 and 2022, the Association had \$56.9 million and \$54.3 million in leasing, subscription, and financing obligations, net of current portion, respectively, consisting of \$56.7 million and \$53.9 million related to building leases and subscription-based information technology arrangements, and \$0.2 million and \$0.4 million related to equipment leases, respectively.

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

**Long-Term Debt at June 30, 2023 and 2022**

	<u><b>2023</b></u>	<u><b>2022</b></u>
Financing obligations with affiliates, net of current portion	\$ 38,160,000	\$ 40,750,000
Financed purchase obligations, net of current portion	186,814	410,838
Right-of-use and subscription liabilities, net of current portion	<u>18,511,593</u>	<u>13,125,433</u>
Total long term debt	<u><u>\$ 56,858,407</u></u>	<u><u>\$ 54,286,271</u></u>

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**

In fiscal year 2023, the Association faced significant headwinds as revenue decreased due to the end of federal funding related to the pandemic, and labor costs increased due to the national labor shortage. The Association has been unable to increase its revenues as quickly as labor costs rose since third party payor agreements are multi-year contracts. These pressures have led the Association to seek a more sustainable funds-flow model with its primary hospital partner, Tampa General Hospital, with the intent of de-risking the Association from the increasing operating costs of the clinical practice.

**COMMITMENTS**

The Association is not aware of any significant commitments other than financing agreements discussed in Notes 7 through 9 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 Assistant Vice President, Clinical Affairs, 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 STATEMENT OF NET POSITION**

**JUNE 30, 2023**

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 21,735,747
Short-term investments	26,054,173
Patient accounts receivable, less allowances for contractual adjustments and bad debts	17,141,582
Grants, contracts and awards receivable	8,485,896
Other receivables	49,215,796
Current portion of lease receivable	2,531,953
Inventory	1,130,339
Other current assets	<u>2,726,224</u>
Total current assets	129,021,710
<b>CAPITAL ASSETS, NET, INCLUDING RIGHT-OF-USE LEASED ASSETS OF \$13,125,433 AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS OF \$8,297,267</b>	
	71,394,607
<b>LEASE RECEIVABLE, NET OF CURRENT PORTION</b>	<u>18,340,692</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 218,757,009</u></u>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 19,248,691
Accrued salaries and wages	5,034,829
Current portion of financed purchase obligations	269,853
Current portion of financing obligations with affiliates	2,590,000
Current portion of right-of-use and subscription liabilities	2,911,108
Accrued expenses and other liabilities	10,359,117
Unearned revenue	<u>475,046</u>
Total current liabilities	<u>40,888,644</u>
<b>LONG-TERM LIABILITIES</b>	
Financing obligations with affiliates, net of current portion	38,160,000
Financed purchase obligations, net of current portion	186,814
Right-of-use and subscription liabilities, net of current portion	<u>18,511,593</u>
Total long-term liabilities	<u>56,858,407</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred lease income	<u>20,872,645</u>
<b>NET POSITION</b>	
Net investment in capital assets	8,765,239
Unrestricted	<u>91,372,074</u>
Total net position	<u>100,137,313</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<u><u>\$ 218,757,009</u></u>

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 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2023**

**OPERATING REVENUES**

Net patient service revenue	\$ 232,599,345
Grants, contracts and awards revenue	113,028,736
Other operating revenue	<u>23,816,293</u>
Total operating revenues	<u>369,444,374</u>

**OPERATING EXPENSES**

Salaries and wages - faculty and staff	286,777,167
Excess FICA refunds	(2,055,175)
Malpractice insurance support	1,102,758
Operating expenses	64,247,382
Rent, repairs and maintenance	5,225,373
Depreciation and amortization	<u>7,113,854</u>
Total operating expenses	<u>362,411,359</u>

**OPERATING INCOME**

7,033,015

**NONOPERATING REVENUES (EXPENSES)**

Investment income, net	2,294,848
Loss on disposal of capital assets	(43,852)
Interest on capital asset-related debt	(2,588,567)
Contributions to University of South Florida and related entities	(10,276,608)
Other nonoperating income	<u>257,068</u>
Total nonoperating expenses	<u>(10,357,111)</u>

**CHANGE IN NET POSITION**

(3,324,096)

**NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED**

100,105,789

**PRIOR PERIOD ADJUSTMENT (NOTE 17)**

3,355,620

**NET POSITION, BEGINNING OF YEAR, AS RESTATED**

103,461,409

**NET POSITION, END OF YEAR**

\$ 100,137,313

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 STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from and on behalf of patients	\$ 250,726,678
Other receipts from operations	134,532,543
Cash paid to employees	(286,167,265)
Cash paid to suppliers	<u>(81,640,302)</u>
Net cash provided by operating activities	<u>17,451,654</u>

**CASH FLOWS FROM NONCAPITAL  
FINANCING ACTIVITIES**

Contributions to University of South Florida and related entities	<u>(10,276,608)</u>
Net cash used in noncapital financing activities	<u>(10,276,608)</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Principal paid on financing obligations with affiliates	(2,525,000)
Principal paid on financed purchase obligations	(221,531)
Principal paid on right-of-use liabilities	(3,094,509)
Proceeds from sale of capital assets	52,644
Purchases of capital assets	(4,517,104)
Interest payments	<u>(2,588,567)</u>
Net cash used in capital and related financing activities	<u>(12,894,067)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>257,068</u>
Net cash provided by investing activities	<u>257,068</u>

**NET CHANGE IN CASH AND CASH EQUIVALENTS** (5,461,953)

**CASH AND CASH EQUIVALENTS, BEGINNING  
OF YEAR** 27,197,700

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 21,735,747

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 STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2023**

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**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	<u>\$ 7,033,015</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	7,113,854
Provision for bad debts	6,775,857
Changes in operating assets and liabilities:	
Patient accounts receivable	(10,736,732)
Grants, contracts and awards receivable	(1,041,557)
Lease receivable	2,413,369
Other receivables	24,073,082
Inventory and other current assets	853,057
Accounts payable	(10,408,536)
Accrued expenses and other liabilities	(2,954,583)
Unearned revenue	(3,255,803)
Deferred inflows	<u>(2,413,369)</u>
Total adjustments	<u>10,418,639</u>
Net cash provided by operating activities	<u><u>\$ 17,451,654</u></u>

See notes to the combined financial statements.

**UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**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 statement 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 to be ongoing, major, or central to the provision of healthcare services are reported as operating

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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 year ended June 30, 2023 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.

**UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**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 statement of net position, not otherwise designated for long-term use, as current assets. Investments with maturity dates beyond one-year from the combined statement 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 6 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, 2023.

**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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Medicaid funding, telephone calls to patients with upcoming appointments and/or outstanding self-pay balances after receipt of one patient statement, as well as focused attention on accounts with balances greater than \$3,500, which includes coordination with affiliated hospitals regarding charity care and any other possible funding sources. Accounts written off as uncollectible are deducted from the allowance, and subsequent recoveries are recognized in the period of recovery. Allowance for doubtful accounts for self-pay patients was approximately 57% of self-pay accounts receivable at June 30, 2023. The Association's self-pay write-offs were approximately \$6,721,000 for the fiscal year ended June 30, 2023.

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 2023. 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:

<b>Asset Class</b>	<b>Estimated Useful Lives</b>
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)
Right-of-use leased assets	Lease term
Subscription-based information technology arrangements	Subscription term

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.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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. Included in net patient service revenue for the year ended June 30, 2023 is approximately \$35,171,000 of Upper Payment Limit (UPL) amounts related to enhanced payments to Medicaid providers.

**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 \$7,337,000 for the year ended June 30, 2023.

The estimated cost of services and supplies furnished under the Morsani College of Medicine charity care policy totaled approximately \$4,873,000 for the year ended June 30, 2023 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, 2023, management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

**Excess FICA Refunds**

The salaries of certain members of the faculty of the Morsani College of Medicine are paid by both the University and a related party affiliate. As a result of this arrangement, several of these individuals receive combined compensation from the University and the related party affiliate 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 the related party affiliate 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 the

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

related party affiliate over contribute employer FICA contributions, on a combined basis, for individuals whose total compensation paid by both entities is above the FICA wage base limit. Since the University and the related party affiliate are considered a common paymaster by the IRS, the related party affiliate 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 the related party affiliate. During the year ended June 30, 2023, the related party affiliate filed for excess FICA overpayments for calendar year 2022 totaling approximately \$2,055,000. Amounts included in other receivables in the accompanying combined statement of net position as of June 30, 2023 are approximately \$3,762,000.

**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.

**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, 2023, 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 73.3% of the Association's gross patient accounts receivable as of June 30, 2023. Medicaid represents 2.5% of the Association's gross patient accounts receivable as of June 30, 2023. Medicare represents 12.7% of the Association's gross patient accounts receivable as of June 30, 2023. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services. Patient accounts receivable are reported net of an estimated allowance for contractual adjustments and doubtful accounts in the accompanying combined statement of net position.

**Deferred Outflows and Inflows of Resources**

GASB provides that certain amounts reported on the combined 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. See Note 10 for a description of the Association's deferred inflows.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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, 2023.

**Right-Of-Use Capital Assets and Lease Liabilities**

Effective July 1, 2021, the Association adopted GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset.

Lessee

As noted above, the Association recognizes a lease liability and an intangible right-of-use lease asset (lease asset) in the combined financial statements. At the commencement of a lease, the Association initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Association determines (1) the discount rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The Association uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Association generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease as well as expected renewal terms. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

The Association monitors changes in circumstances that would require a remeasurement of its leases and will remeasure lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of any lease liability. Lease assets are reported with other capital assets and lease liabilities are reported within debt on the accompanying combined statement of net position.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Lessor

The Association has entered into sub-lease agreements with third parties for certain buildings described in Note 7 to the combined financial statements. The Association recognizes a lease receivable and a deferred inflow of resources in the combined financial statements in connection with these sub-lease agreements. At the commencement of the lease, the Association initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments receivable. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. Key estimates and judgments include how the Association determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The Association uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee. The Association monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**Subscription-Based Information Technology Arrangements**

Effective July 1, 2022, the Association adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Association is party to subscription-based information technology arrangements (SBITAs). The Association recognizes a subscription liability and an intangible right-of-use subscription asset (subscription asset). The Association generally recognizes subscription liabilities with an initial term greater than 12 months. For SBITAs with a maximum possible term of 12 months or less at commencement, the Association recognizes expenses based on the provisions of the arrangement. Upon adoption, the Association recognized subscription assets and liabilities in the amount of \$9,282,052. There was no impact to the Association's net position as a result of the adoption of this statement.

At the commencement of a SBITA, the Association initially measures the subscription liability at the present value of expected subscription payments to be made over the SBITA term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial measurement of the subscription liability, adjusted for payments associated with the SBITA contract made to the vendor at the commencement of the subscription term, plus any capitalizable initial implementation costs, less any vendor incentives received at the commencement of the subscription term. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the useful life of the IT asset or subscription term.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Key estimates and judgments related to SBITAs include how the Association determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) the subscription term, and (3) subscription payments.

The Association uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the Association generally uses its estimated incremental borrowing rate as the discount rate. The subscription term includes the noncancellable period during which the Association has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend if reasonably certain the Association or vendor will exercise that option or to terminate if it is reasonably certain that the Association or vendor will not exercise that option. Subscription payments included in the measurement of the subscription liability are composed of fixed payments.

The Association monitors changes in circumstances that would require a remeasurement of a SBITA and will remeasure the subscription asset and subscription liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with other capital assets and subscription liabilities are reported within debt on the accompanying combined statement of net position.

The Association capitalizes qualifying initial implementation costs as part of the subscription asset. Preliminary project stage outlays are expensed as incurred. Operation and additional implementation stage activities are expensed as incurred unless they meet specific capitalization criteria.

**3. NET PATIENT SERVICE REVENUE**

The composition of net patient service revenue for the year ended June 30, 2023 is as follows:

Gross patient service revenue	\$ 613,018,465
Less contractual adjustments	(366,264,912)
Less charity care	(7,378,351)
Less provision for bad debt	<u>(6,775,857)</u>
<b>Net patient service revenues</b>	<b><u>\$ 232,599,345</u></b>

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

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**3. NET PATIENT SERVICE REVENUE – CONTINUED**

Patient service revenue (net of contractual allowances and discounts) by category for the year ended June 30, 2023 is as follows:

<u>Program</u>	<u>Total Percentage</u>
Managed care	73%
Medicare	17%
Medicaid	3%
Private contractual agreements	7%

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 year ended June 30, 2023, UMSA recognized approximately \$35,171,000 for payments accrued under this program. These amounts are included in net patient service revenue in the accompanying combined statement of revenue, expenses, and changes in net position.

**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

GASB Statement 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, 2023, approximately \$22,766,000 of the Association’s bank balances were in excess of the FDIC limit and were uninsured or uncollateralized.

A summary of the Association’s investments in exchange traded mutual funds as of June 30, 2023 is as follows:

<u>Fund Type</u>	<u>Fair Value</u>	<u>%</u>
Short-term corporate bonds	\$ 10,603,528	41%
Large cap domestic stocks	12,349,643	47%
Emerging market stocks	1,420,148	5%
Large cap international stocks	1,680,854	7%
<b>Total investments</b>	<b>\$ 26,054,173</b>	<b>100%</b>

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**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS – CONTINUED**

As of June 30, 2023, 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, 2023.

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.

Investment income for the year ended June 30, 2023 is summarized as follows:

Interest and dividends	\$ 476,047
Net realized and unrealized gains	<u>1,818,801</u>
	<u><u>\$ 2,294,848</u></u>

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**5. CAPITAL ASSETS**

Capital asset additions, retirements, and balances for the year ended June 30, 2023 are as follows:

	<u>Balance at July 1, 2022</u>	<u>Balance at July 1, 2022 (as restated*)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance at June 30, 2023</u>
<b>Capital assets not being depreciated:</b>						
Construction in progress	\$ 1,055,210	\$ -	\$ 1,629,572	\$ -	\$ (816,131)	\$ 1,868,651
Total capital assets not being depreciated	<u>1,055,210</u>	<u>-</u>	<u>1,629,572</u>	<u>-</u>	<u>(816,131)</u>	<u>1,868,651</u>
<b>Capital assets being depreciated:</b>						
Buildings and improvements	67,086,545	-	-	-	-	67,086,545
Medical and other equipment	11,701,057	-	911,821	(2,840,347)	-	9,772,531
Furniture and fixtures	1,972,350	-	125,569	(508,608)	-	1,589,311
Leasehold improvements	5,949,463	-	1,836,876	(883,340)	816,131	7,719,130
Computer hardware and software	20,552,791	-	13,266	(15,201,962)	-	5,364,095
Right-of-use leased asset - building	17,191,819	-	-	-	-	17,191,819
Right-of-use leased asset - equipment	123,734	-	-	-	-	123,734
Subscription-based information technology arrangements	-	9,282,052	-	-	-	9,282,052
Total capital assets being depreciated	<u>124,577,759</u>	<u>9,282,052</u>	<u>2,887,532</u>	<u>(19,434,257)</u>	<u>816,131</u>	<u>118,129,217</u>
<b>Accumulated depreciation:</b>						
Buildings and improvements	(23,678,344)	-	(1,677,164)	-	-	(25,355,508)
Medical and other equipment	(9,250,359)	-	(936,114)	2,773,498	-	(7,412,975)
Furniture and fixtures	(1,708,718)	-	(101,187)	506,121	-	(1,303,784)
Leasehold improvements	(3,957,550)	-	(1,062,424)	856,180	-	(4,163,794)
Computer hardware and software	(20,151,802)	-	(242,455)	15,201,962	-	(5,192,295)
Right-of-use leased asset - building	(2,053,835)	-	(2,082,734)	-	-	(4,136,569)
Right-of-use leased asset - equipment	(26,560)	-	(26,991)	-	-	(53,551)
Subscription-based information technology arrangements	-	-	(984,785)	-	-	(984,785)
Total accumulated depreciation	<u>(60,827,168)</u>	<u>-</u>	<u>(7,113,854)</u>	<u>19,337,761</u>	<u>-</u>	<u>(48,603,261)</u>
<b>Capital assets, net</b>	<u>\$ 64,805,801</u>	<u>\$ 9,282,052</u>	<u>\$ (2,596,750)</u>	<u>\$ (96,496)</u>	<u>\$ -</u>	<u>\$ 71,394,607</u>

\* Restatement of capital assets as of July 1, 2022 is a result of implementing GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, during the 2023 fiscal year. For additional information, please see Note 2.

Depreciation expense was approximately \$7,114,000 for the year ended June 30, 2023.

**6. 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.

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**6. 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, 2023, all of the Association's investments are Level 1.

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**7. FINANCING OBLIGATIONS WITH AFFILIATES**

North and South Clinic Facilities

During 2006, MSSC entered into two 30-year Clinical Facility 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 agreement 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 Guaranty, dated as of March 1, 2006, with USFFC. The 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 Agreements.

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, 2023, total building costs, net of accumulated depreciation, for the South Clinic totaled approximately \$11,537,000. The Association paid USFFC approximately \$1,097,000 during the year ended June 30, 2023 related to the South Clinic Facility 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, 2023, building costs, net of accumulated depreciation, for the North Clinic totaled approximately \$17,898,000. The Association paid USFFC approximately \$1,612,000 during the year ended June 30, 2023 related to the North Clinic Facility agreement.

Medical Faculty Office Building

During 2007, MSSC entered into a 30-year agreement for a medical faculty office building (the MOB Facility 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 agreement as if it were the owner of the asset during the construction phase and thereafter in accordance with generally accepted accounting principles. The Guaranty, dated as of November 19, 2007, with USFFC, provided that UMSA would unconditionally and irrevocably guarantee payment of all sub-rental payments and all other sums due and payable from MSSC to USFFC pursuant to the MOB Facility Agreement.

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, 2023, building costs, net of

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**7. FINANCING OBLIGATIONS WITH AFFILIATES – CONTINUED**

accumulated depreciation, totaled approximately \$12,296,000. The Association paid USFFC approximately \$1,430,000 during the year ended June 30, 2023 related to the MOB Facility Agreement.

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 MOB Facility Agreements to UMSA.

The principal portion of financing obligations under these agreements with affiliates as of June 30, 2023 consists of the following:

Facility 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 3.43% for the duration of July 1, 2016 through July 1, 2026	\$ 10,732,500
Facility 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 3.43% for the duration of July 1, 2016 through July 1, 2026	15,767,500
Facility 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 4.29%	14,250,000
	40,750,000
Less current maturities	(2,590,000)
	\$ 38,160,000

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**7. FINANCING OBLIGATIONS WITH AFFILIATES – CONTINUED**

Activity for financing obligations with affiliates for the year ended June 30, 2023 is as follows:

<b>Facility Obligation</b>	<b>Balance July 1, 2022</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2023</b>	<b>Amounts Due Within One Year</b>
SCF	\$ 11,437,200	\$ -	\$ (704,700)	\$ 10,732,500	\$ 720,900
NCF	16,802,800	-	(1,035,300)	15,767,500	1,059,100
MOB	15,035,000	-	(785,000)	14,250,000	810,000
	<u>\$ 43,275,000</u>	<u>\$ -</u>	<u>\$ (2,525,000)</u>	<u>\$ 40,750,000</u>	<u>\$ 2,590,000</u>

The future debt service under these financing obligations as of June 30, 2023 are as follows:

<b>Years Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 2,590,000	\$ 1,520,275	\$ 4,110,275
2025	2,660,000	1,424,472	4,084,472
2026	2,730,000	1,326,010	4,056,010
2027	2,800,000	1,224,889	4,024,889
2028	2,875,000	1,121,109	3,996,109
Thereafter	27,095,000	4,861,646	31,956,646
	<u>\$ 40,750,000</u>	<u>\$ 11,478,401</u>	<u>\$ 52,228,401</u>

Interest expense was approximately \$1,614,000 for the year ended June 30, 2023.

**8. FINANCED PURCHASE OBLIGATIONS**

Financed purchase obligations represent leases that do not meet the criteria for capitalization as right-of-use assets under GASB No. 87 and are, therefore, treated as financed purchases similar to debt. Financed purchase obligations for the year ended June 30, 2023 is as follows:

	<b>Balance July 1, 2022</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2023</b>	<b>Amounts Due Within One Year</b>
Financed purchase obligations	\$ 678,198	\$ -	\$ (221,531)	\$ 456,667	\$ 269,853

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**8. FINANCED PURCHASE OBLIGATIONS – CONTINUED**

Future minimum lease payments under financed purchase obligations as of June 30, 2023 are as follows:

<b>Year Ending June 30,</b>	
2024	\$ 278,319
2025	161,884
2026	<u>27,221</u>
Total minimum payments	467,424
Less amounts representing interest	<u>(10,757)</u>
Present value of net minimum payments	456,667
Less current portion	<u>(269,853)</u>
Long-term financed purchase obligations	<u><u>\$ 186,814</u></u>

As of June 30, 2023, total assets recorded under financed purchase obligations had a cost of approximately \$1,323,000. For the year ended June 30, 2023, amortization of assets recorded under financed purchase obligations was approximately \$245,000 and accumulated amortization was approximately \$874,000 as of June 30, 2023.

**9. RIGHT-OF-USE AND SUBSCRIPTION LIABILITIES**

Right-of-use and subscription liabilities for the year ended June 30, 2023 is as follows:

	<u>Balance July 1, 2022</u>	<u>July 1, 2022 (as restated*)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2023</u>	<u>Amounts Due Within One Year</u>
Right-of-use liabilities	\$ 15,235,158	\$ -	\$ -	\$ (2,109,724)	\$ 13,125,434	\$ 1,861,682
Subscription-based information technology arrangements	-	9,282,052	-	(984,785)	8,297,267	1,049,426
	<u>\$ 15,235,158</u>	<u>\$ 9,282,052</u>	<u>\$ -</u>	<u>\$ (3,094,509)</u>	<u>\$ 21,422,701</u>	<u>\$ 2,911,108</u>

\* Restatement of subscription-based information technology arrangements as of July 1, 2022 is a result of implementing GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, during the 2023 fiscal year. For additional information, please see Note 2.

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**9. RIGHT-OF-USE AND SUBSCRIPTION LIABILITIES – CONTINUED**

Future payments on right-of-use and subscription liabilities as of June 30, 2023 are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 2,911,108	\$ 510,284	\$ 3,421,392
2025	3,055,264	428,183	3,483,447
2026	3,238,640	343,981	3,582,621
2027	2,963,579	259,880	3,223,459
2028	2,622,924	190,847	2,813,771
Thereafter	6,631,186	195,776	6,826,962
	<u>21,422,701</u>	<u>1,928,951</u>	<u>23,351,652</u>
Less current portion	<u>(2,911,108)</u>	<u>(510,284)</u>	<u>(3,421,392)</u>
Long-term right-of-use and subscription liabilities	<u>\$ 18,511,593</u>	<u>\$ 1,418,667</u>	<u>\$ 19,930,260</u>

As of June 30, 2023, total assets recorded under right-of-use lease liabilities had a cost of approximately \$17,316,000. Amortization of assets recorded under right-of-use lease liabilities for the year ended June 30, 2023 was approximately \$2,110,000 and accumulated amortization as of June 30, 2023 was approximately \$4,190,000.

As of June 30, 2023, total assets recorded under subscription-based information technology arrangements had a cost of approximately \$9,282,000. Amortization of assets recorded under subscription-based information technology arrangements for the year ended June 30, 2023 and accumulated amortization as of June 30, 2023 was approximately \$985,000.

**10. LEASES RECEIVABLE**

During 2022, the Association began sub-leasing certain buildings described in Note 7 to a third party. The leases are for terms ranging from five to ten years, and the Association will receive monthly payments of \$225,000 through fiscal 2027, and \$200,000 per month from fiscal 2028 through 2032. The Association recognized approximately \$2,413,000 in lease revenue and approximately \$528,000 in interest revenue for the year ended June 30, 2023. As of June 30, 2023, the Association's receivable for lease payments was approximately \$20,873,000. The Association recognized a deferred inflow of resources associated with the lease of approximately \$20,873,000 at June 30, 2023 that will be recognized as revenue over the remainder of the lease term.

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**11. RELATED PARTY TRANSACTIONS WITH AFFILIATES**

Expenses totaling approximately \$15,465,000 during the year ended June 30, 2023 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 year ended June 30, 2023, convenience account funding for salary grants and other operating expenses totaled approximately \$82,002,000. As of June 30, 2023, 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 \$2,219,000 at June 30, 2023 are included in accounts payable on the accompanying combined statement 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, 2023, the Association has received cumulative reimbursement from the University in excess of costs incurred under this arrangement of approximately \$13,335,000. These amounts are included in accounts payable on the accompanying combined statement of net position.

The clinical component of physician salaries and certain benefits is paid through the related party affiliate. 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 year ended June 30, 2023, the Association transferred approximately \$156,306,000 to the related party affiliate for salaries and other related expenses.

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, 2023, 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<sup>st</sup> 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, 2023, no correspondence has been provided to HSSO and as such, no interest has accrued.

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**11. RELATED PARTY TRANSACTIONS WITH AFFILIATES – CONTINUED**

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, 2023, the balance of the note was \$339,587.

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.

**12. COMMITMENTS AND CONTINGENCIES**

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.

**13. 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.

**14. 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 year ended June 30, 2023, the Association paid approximately \$1,101,000 to the University of South Florida Self-Insurance Program on behalf of the Morsani College of Medicine.

**UNIVERSITY MEDICAL SERVICE ASSOCIATION, INC. AND  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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**15. AFFILIATION AGREEMENT WITH TAMPA GENERAL HOSPITAL**

In January 2022, the practice plan and Tampa General Hospital built upon their nearly 50 year affiliation to become Florida's leading academic medical center (AMC) through a sustainable, collaborative, and comprehensive relationship that mutually benefits each organization, and the communities we serve, across all missions including patient care, teaching, research, and advocacy. A key component of the more comprehensive global affiliation agreement was the creation of USF Tampa General Physicians Group (USFTGP) that will include physicians employed by TGH and USF. On January 1, 2022, approximately 1,300 UMSA employees transitioned employment to either USF, USFTGP, or TGH, depending on their function, with the majority moving to USFTGP.

**16. PRIOR PERIOD ADJUSTMENT**

The Association has restated its net position as of July 1, 2022 to reflect the correction of an error related to the accounting for a contract with the University of South Florida (USF). It was determined that previously recorded revenues related to the contract were understated by approximately \$9,568,000 and related expenses were understated by approximately \$6,212,000 resulting in an increase to net position as of July 1, 2022 of approximately \$3,356,000. The amount recorded as Due to USF and included in accounts payable on the combined statement of net position as of June 30, 2022 was overstated by approximately \$3,356,000.

**17. SUBSEQUENT EVENTS**

The Association has evaluated events and transactions for potential recognition or disclosure in the combined financial statements through October 12, 2023, the date on which the combined financial statements were available to be issued.

**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, 2023, 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 October 12, 2023.

**Report on 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2023-001, that we consider to be a material weakness.

**Report on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The Association's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**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.



Tampa, Florida  
October 12, 2023

**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 FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2023**

**Section I – 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?                      Yes       None Reported

Non-compliance material to financial statements noted?      Yes       No

**Section II – Financial Statement Findings**

Finding 2023-001: Restatement

During the year ended June 30, 2023, management determined that previous reconciliations of a contract with the University of South Florida (USF) had not been properly performed. The contract was reviewed in 2023 and proper accounting and reconciliations were performed and confirmed with USF. This resulted in the discovery of previously recorded revenues related to the contract being understated by approximately \$9,568,000 and related expenses being understated by approximately \$6,212,000 resulting in an increase to net position as of July 1, 2022 of approximately \$3,356,000. The amount recorded as Due to USF and included in accounts payable on the combined statement of net position as of June 30, 2022 was overstated by approximately \$3,356,000. The Association restated its net position as of July 1, 2022 to correct the accounting for this contract.

Views of Responsible Officials and Corrective Actions

Management determined that the contract was not properly accounted for during its review of balance sheet reconciliations and supporting details. When the error was discovered, management advised USF Health leadership, the USF Controller’s Office, and both internal and external auditors. Management has reviewed the ownership of all convenience accounts with USF and continues to monitor them monthly.