



**Consolidated Financial Statements and Report of
Independent Certified Public Accountants**

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

June 30, 2018 and 2017

Table of contents

| | |
|---|-------|
| Report of Independent Certified Public Accountants | 1-2 |
| Consolidated Financial Statements: | |
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Operations and Changes in Net Assets | 4-5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7-26 |
| Supplementary Information: | |
| Consolidating Balance Sheet | 28-29 |
| Consolidating Statement of Operations | 30 |



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Report on the financial statements

We have audited the accompanying consolidated financial statements of H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries (the Cancer Center), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries as of June 30, 2018 and 2017 and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated September 25, 2018 on our consideration of the Cancer Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cancer Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cancer Center's internal control over financial reporting and compliance.



Tampa, Florida
September 25, 2018

Consolidated balance sheets

| June 30, | 2018 | 2017 |
|--|-------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 258,189,237 | \$ 201,030,321 |
| Current portion of assets limited as to use | 20,589,129 | 19,669,978 |
| Accounts receivable, less allowances for uncollectibles (2018 – \$15,138,360; 2017 – \$10,901,556) | 132,551,828 | 107,457,812 |
| Current portion of pledges receivable | 5,698,395 | 4,663,779 |
| Inventories | 15,941,336 | 13,154,729 |
| Grant receivables | 25,177,023 | 19,862,126 |
| Prepaid and other current assets | 32,840,466 | 32,462,133 |
| Total current assets | 490,987,414 | 398,300,878 |
| Assets limited as to use, net of current portion | 350,246,510 | 308,973,226 |
| Pledges receivable, less discounts and allowances for uncollectible pledges, net of current portion | 10,339,346 | 5,714,603 |
| Property, plant, and equipment: | | |
| Land | 18,106,905 | 18,106,905 |
| Building and land improvements | 496,235,942 | 467,777,634 |
| Equipment | 481,385,822 | 462,510,449 |
| | 995,728,669 | 948,394,988 |
| Less accumulated depreciation | (577,429,665) | (540,050,024) |
| | 418,299,004 | 408,344,964 |
| Construction-in-progress | 18,797,603 | 27,819,576 |
| | 437,096,607 | 436,164,540 |
| Other assets | 38,136,551 | 22,689,532 |
| Total assets | <u>\$ 1,326,806,428</u> | <u>\$ 1,171,842,779</u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 85,459,058 | \$ 84,511,912 |
| Accrued employee compensation | 69,640,215 | 62,723,039 |
| Accrued interest | 5,181,274 | 5,360,835 |
| Current portion of deferred revenue | 16,832,683 | 16,646,381 |
| Estimated third-party settlements | 1,395,715 | 15,683,821 |
| Current portion of long-term debt | 11,515,000 | 11,170,000 |
| Total current liabilities | 190,023,945 | 196,095,988 |
| Other liabilities | 30,084,833 | 33,914,663 |
| Long-term debt, net of current portion | 299,981,954 | 313,772,355 |
| Total liabilities | 520,090,732 | 543,783,006 |
| Net assets: | | |
| Unrestricted: | | |
| H. Lee Moffitt Cancer Center and Research Institute, Inc. and Subsidiaries | 672,242,683 | 531,592,972 |
| Noncontrolling interest | 23,627,567 | (1,321,074) |
| Total unrestricted net assets | 695,870,250 | 530,271,898 |
| Temporarily restricted | 94,344,007 | 84,244,495 |
| Permanently restricted | 16,501,439 | 13,543,380 |
| Total net assets | 806,715,696 | 628,059,773 |
| Total liabilities and net assets | <u>\$ 1,326,806,428</u> | <u>\$ 1,171,842,779</u> |

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

Consolidated statements of operations and changes in net assets

| For the years ended June 30, | 2018 | 2017 |
|---|------------------|----------------|
| Unrestricted revenues and other support: | | |
| Net patient service revenues | \$ 1,093,857,784 | \$ 969,489,075 |
| Provision for patient service bad debts | (24,066,040) | (9,250,412) |
| Net patient service revenues, less provision for bad debts | 1,069,791,744 | 960,238,663 |
| Other revenues, less provision for grant and other bad debts (2018 – \$1,495,797; 2017 – \$822,952) | 206,200,986 | 136,485,850 |
| Net assets released from restrictions and used for operating expenses | 34,971,144 | 36,114,342 |
| Total unrestricted revenues and other support | 1,310,963,874 | 1,132,838,855 |
| Expenses: | | |
| Salaries, wages, and benefits | 605,409,082 | 541,787,156 |
| Faculty fees | 10,260,193 | 10,133,621 |
| Purchased services | 120,275,718 | 107,923,088 |
| Supplies | 364,080,125 | 310,954,634 |
| Other operating expenses | 79,568,486 | 74,866,793 |
| Depreciation and amortization | 48,447,411 | 43,122,286 |
| Interest | 8,912,493 | 9,551,617 |
| Total expenses | 1,236,953,508 | 1,098,339,195 |
| Income from operations | 74,010,366 | 34,499,660 |
| Nonoperating gains, net | 18,868,122 | 16,412,223 |
| Excess of revenues and gains over expenses and losses before tax | 92,878,488 | 50,911,883 |
| Income tax (expense) / benefit | (7,516,097) | 6,140,659 |
| Excess of revenues and gains over expenses and losses | 85,362,391 | 57,052,542 |
| Other changes: | | |
| Net assets released from restrictions and used to purchase property, plant, and equipment | 257,886 | 85,412 |
| Net assets released from restrictions and used for payment of long-term debt | 10,191,238 | 7,721,968 |
| Grants received for reimbursement of property, plant, and equipment | 149,845 | 212,273 |
| Net proceeds from sale of M2Gen Corp. convertible preferred stock | 69,714,844 | - |
| Restricted investment income | (673,506) | (642,121) |
| Other | 595,654 | 1,203,289 |
| Increase in unrestricted net assets | 165,598,352 | 65,633,363 |

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

Consolidated statements of operations and changes in net assets (continued)

| For the years ended June 30, | 2018 | 2017 |
|---|----------------|----------------|
| Temporarily restricted net assets: | | |
| Contributions and memorials | \$ 18,560,618 | \$ 16,624,481 |
| Grants and contracts with purpose restrictions | 20,906,203 | 22,041,694 |
| Investment income | 673,506 | 642,121 |
| Net assets released from purpose restrictions and used to purchase property, plant, and equipment | (257,886) | (85,412) |
| Net assets released from purpose restrictions and used for payment of long-term debt | (10,191,238) | (7,721,968) |
| Net assets released from purpose restrictions and used for payment of operating expenses | (30,320,566) | (30,734,004) |
| Net assets released from purpose restrictions and used for payment of interest | (3,666,966) | (3,606,225) |
| Net assets released from time restrictions and used for payment of operating expenses | (983,612) | (1,774,113) |
| Proceeds from the Cigarette Tax Trust Fund | 15,524,028 | 15,524,028 |
| Interest earnings on proceeds from the Cigarette Tax Trust Fund | 2,728 | 1,457 |
| Loss on uncollectible temporarily restricted pledges | (65,750) | (12,804) |
| Other | (81,553) | - |
| Increase in temporarily restricted net assets | 10,099,512 | 10,899,255 |
| Permanently restricted net assets: | | |
| Contributions and memorials | 2,958,059 | 70,743 |
| Increase in permanently restricted net assets | 2,958,059 | 70,743 |
| Increase in net assets | 178,655,923 | 76,603,361 |
| Net assets at beginning of year | 628,059,773 | 551,456,412 |
| Net assets at end of year | \$ 806,715,696 | \$ 628,059,773 |

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

Consolidated statements of cash flows

| For the years ended June 30, | 2018 | 2017 |
|--|----------------|----------------|
| Operating activities and nonoperating gains: | | |
| Increase in net assets | \$ 178,655,923 | \$ 76,603,361 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains: | | |
| Loss on sale of property, plant, and equipment | 848,850 | 1,151,286 |
| Restricted contributions and restricted investment income | (37,718,938) | (32,862,830) |
| Contribution of unrestricted and restricted securities | (15,751) | (253,722) |
| Grants and contracts with purpose restrictions | (20,906,203) | (22,041,694) |
| Net proceeds from sale of M2Gen Corp. convertible preferred stock | (69,714,844) | - |
| Change in deferred income tax benefit | 3,450,190 | (7,244,248) |
| Grants received for reimbursement of property, plant, and equipment purchases | (149,845) | (167,909) |
| Change in net unrealized (gains) losses on investments | (6,670,768) | (15,255,237) |
| Depreciation and amortization | 48,447,411 | 43,122,286 |
| Amortization of bond premium, discount and issuance costs | (2,275,401) | (1,953,210) |
| Loss on early extinguishment of debt | - | 3,141,075 |
| Provision for bad debts | 25,561,837 | 10,073,364 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (49,160,056) | (20,616,691) |
| Inventories | (2,786,607) | (1,179,186) |
| Grant receivables | (6,810,694) | (4,358,683) |
| Prepaid and other assets | (757,824) | (11,310,179) |
| Pledges receivable | (5,659,359) | (1,722,259) |
| Accounts payable and accrued expenses | 2,050,735 | 24,628,589 |
| Accrued employee compensation | 6,917,176 | 5,527,291 |
| Accrued interest | (179,561) | (11,673) |
| Estimated third-party settlements | (14,288,106) | (1,656,636) |
| Income tax payable | (1,103,589) | 1,103,589 |
| Other liabilities | (3,643,528) | 1,407,846 |
| Net cash provided by operating activities and nonoperating gains | 44,091,048 | 46,124,530 |
| Investing activities: | | |
| Purchases of property, plant, and equipment | (50,228,328) | (72,507,930) |
| Purchases of investments | (40,000,000) | - |
| Change in Avatar clinical and molecular data | (18,517,718) | (7,505,804) |
| Change in assets limited as to use | 4,306,539 | (31,158,108) |
| Net cash used in investing activities | (104,439,507) | (111,171,842) |
| Financing activities: | | |
| Payments on long-term debt | (11,170,000) | (119,483,755) |
| Restricted contributions and restricted investment income | 37,718,938 | 32,862,830 |
| Grants and contracts with purpose restrictions | 20,906,203 | 22,041,694 |
| Net proceeds from sale of M2Gen Corp. convertible preferred stock | 69,714,844 | - |
| Contribution of securities with purpose restrictions | 187,545 | 274,149 |
| Proceeds from issuance of long-term debt | - | 152,575,316 |
| Payments for debt financing costs | - | (1,595,739) |
| Grants received for reimbursement of property, plant, and equipment purchases | 149,845 | 167,909 |
| Net cash provided by financing activities | 117,507,375 | 86,842,404 |
| Increase in cash and cash equivalents | 57,158,916 | 21,795,092 |
| Cash and cash equivalents at beginning of year | 201,030,321 | 179,235,229 |
| Cash and cash equivalents at end of year | \$ 258,189,237 | \$ 201,030,321 |

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

Notes to consolidated financial statements

Note 1 – Organization

H. Lee Moffitt Cancer Center & Research Institute, Inc. and Subsidiaries (the Cancer Center), located in Tampa, Florida, was created by the Florida Legislature and incorporated on April 17, 1984, as a not-for-profit corporation, and is currently licensed to operate 206 general acute care beds. The Cancer Center's activities relate primarily to research in the areas of basic science, cancer prevention and control, translational science, pre-clinical and clinical investigations, and providing management and certain other support services as the sole corporate member and parent for the following subsidiary corporations:

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

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

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

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

Mission Statement

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

Note 2 – Summary of Significant Accounting Policies

Nonoperating Gains and Losses

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

Use of Estimates

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

Statements of Cash Flows

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

Estimated Third-Party Settlements

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

For services provided to Medicaid beneficiaries, the Cancer Center is reimbursed based on All Payor Related-Diagnostic Related Groups for inpatient services. For the year ended June 30, 2017, the Cancer Center was reimbursed on a cost basis for outpatient services, subject to certain limitations. As of July 1, 2017, Florida's Agency for Health Care Administration (AHCA) transitioned to a new Enhanced Ambulatory Group (EAPG) payment methodology for hospital outpatient services which provides reimbursement for services on prospectively determined prices.

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

As of the year ended June 30, 2017, the Cancer Center reviewed its Medicaid outpatient rate and believed it received a higher rate than to which it was entitled for prior fiscal years. The Cancer Center contacted AHCA at that time to discuss the issue and determined at that time that there was a probable and estimable exposure of \$8,861,000 related to the estimated overpayments received by the Cancer Center in prior periods, which was accrued as a liability as of June 30, 2017. This amount was recorded in estimated settlements due to third parties in the accompanying consolidated balance sheets. During the year ended June 30, 2018, the Cancer Center received final audited rate notices from Medicaid for the prior fiscal years with confirmation that there would be no change to the previous rates used. Therefore, the Cancer Center reversed the liability related to the finalization of those rates, which is included as an increase to net patient service revenue for the year ended June 30, 2018.

Net Patient Service Revenues, Patient Accounts Receivable, and the Allowance for Uncollectibles

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigation. Net patient service revenue increased by approximately \$10,542,000 and \$4,132,000 for the years ended June 30, 2018 and 2017, respectively, for adjustments to prior-year estimated third-party settlements.

Net patient revenues are recorded during the period the health care services are provided based upon the estimated amounts due from the patients and third-party payors. Third-party payors include federal and state agencies (under Medicare, Medicaid, and other programs), managed care health plans, and other private contractual agreements. Estimates of contractual adjustments under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). The Cancer Center also records a provision for doubtful accounts related to uninsured accounts to record the net self-pay accounts receivable at the estimated collectible amounts. Net patient service revenues from third-party payors and others for the years ended June 30, 2018 and 2017, are summarized in the following table:

| <u>Years ended June 30,</u> | <u>2018</u> | <u>2017</u> |
|---|---------------|---------------|
| Managed care | 70.1% | 69.6% |
| Medicare | 25.4 | 27.1 |
| Medicaid | 3.4 | 2.8 |
| Other/commercial/self-pay | <u>3.3</u> | <u>1.5</u> |
| Revenues before provision for patient service bad debts | 102.2 | 101.0 |
| Provision for patient service bad debts | <u>(2.2)</u> | <u>(1.0)</u> |
| Net patient service revenues less provision for bad debts | <u>100.0%</u> | <u>100.0%</u> |

The Cancer Center provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to the estimated net realizable value. Additions to the allowance for uncollectible accounts are made by means of the provision for bad debts. Accounts are written off when deemed to be uncollectible, and are deducted from the accounts receivable balance.

These allowances are 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. One tool used in management’s assessment is a detailed review of historical collections and write-offs at the Cancer Center that represents the Cancer Center’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. For all payor types, when the Cancer Center can no longer reasonably expect collectability of an account based on the aging of the balance due, the Cancer Center reserves all amounts due.

The Cancer Center’s reserve percentage for patients with third-party accounts receivable as of June 30, 2018 and 2017 was 12.8% and 13.0%, respectively. In addition, the Cancer Center’s third-party write-offs for the years ended June 30, 2018 and 2017 were \$81,330,000 and \$69,772,000, respectively. These changes were primarily a result of policy and noncovered charges. The Cancer Center has not changed its charity care or uninsured discount policies during the years ended June 30, 2018 or 2017.

The Cancer Center's allowance for doubtful accounts percentages for self-pay/commercial accounts receivable as of June 30, 2018 and 2017, were 31.6% and 31.4%, respectively. In addition, the Cancer Center's self-pay/commercial write-offs for the years ended June 30, 2018 and 2017 were \$30,888,000 and \$16,418,000, respectively. The allowance percentage was consistent with prior year changes primarily as a result of aging growth offset by positive trends in the collection of self-pay/commercial patients during the year ended June 30, 2018.

Excess of Revenues and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include the excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the excess of revenues and gains over expenses and losses, include the change in unrealized gains and losses on other-than-trading securities, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction, were to be used for the purposes of acquiring such assets), and contributions restricted for the payment of long-term debt.

Inventories

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

Risk Management and Self-Insurance

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

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

Fair Value of Certain Financial Instruments

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

Fair Value Measurements

Fair value is determined using assumptions that market participants would use to determine the price of an asset or liability as opposed to measurements determined based upon information specific to the entity holding those assets and liabilities. To determine those market participant assumptions, the Financial Accounting Standard Board (FASB) established a hierarchy of inputs that the entity must consider, including both independent market data inputs and the entities' assumptions about the market's participant assumptions. In accordance with ASU 2015-07, investments that are valued using net asset value (NAV) as a practical expedient are excluded from this three-tier hierarchy. For all other investments measured at fair value, the hierarchy prioritizes the inputs used to measure fair value. The hierarchy is summarized as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities as of the reporting date.
- Level 2 – Directly or indirectly observable inputs, other than quoted prices included in Level 1. Level 2 inputs may include, among others, interest rates and yield curves observable at commonly quoted intervals, volatilities, credit risks, and other inputs that are derived principally from or corroborated by observable market data by correlation or other means as of the reporting date.

Level 3 – Unobservable inputs used when there is little, if any, market activity for the asset or liability at the measurement date. These inputs represent the entity’s own assumptions about the assumptions that market participants would use to price the asset or liability developed using the best information available.

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

The Cancer Center’s long-term debt is valued based on quoted market prices for the same or similar issues for debt of the same remaining maturities (Level 2). The estimated fair value of the Cancer Center’s long-term debt at June 30, 2018 and 2017 is approximately \$312,084,000 and \$330,348,000, respectively.

The following table summarizes the Cancer Center’s significant financial assets, excluding those measured using net asset value (“NAV”) as a practical expedient, measured at fair value as of June 30, 2018 and 2017:

| June 30, 2018 | Fair Value Measurements at Reporting Date Using | | | |
|-----------------------------|---|-----------------------|----------------------|-------------------|
| | Total | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Assets: | | | | |
| Cash and cash equivalents | \$ 258,189,237 | \$ 258,189,237 | \$ - | \$ - |
| Assets limited as to use: | | | | |
| Equity securities | 189,932,150 | 189,932,150 | - | - |
| Cash and cash equivalents | 104,223,466 | 104,223,466 | - | - |
| Fixed income securities | 45,616,481 | - | 45,616,481 | - |
| U.S. Government obligations | 8,003,110 | 8,003,110 | - | - |
| Total assets | <u>\$ 605,964,444</u> | <u>\$ 560,347,963</u> | <u>\$ 45,616,481</u> | <u>\$ -</u> |

| June 30, 2017 | Fair Value Measurements at Reporting Date Using | | | |
|-----------------------------|---|-----------------------|----------------------|-------------------|
| | Total | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Assets: | | | | |
| Cash and cash equivalents | \$ 201,030,321 | \$ 201,030,321 | \$ - | \$ - |
| Assets limited as to use: | | | | |
| Equity securities | 135,738,275 | 135,738,275 | - | - |
| Cash and cash equivalents | 120,530,284 | 120,530,284 | - | - |
| Fixed income securities | 42,881,870 | - | 42,881,870 | - |
| U.S. Government obligations | 11,061,327 | 11,061,327 | - | - |
| Total assets | <u>\$ 511,242,077</u> | <u>\$ 468,360,207</u> | <u>\$ 42,881,870</u> | <u>\$ -</u> |

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

| June 30, | 2018 | 2017 |
|--|-----------------------|-----------------------|
| Cash, investments and assets limited as to use at fair value | \$ 605,964,444 | \$ 511,242,077 |
| Alternative investments at net asset value | 23,060,432 | 18,431,448 |
| Total | <u>\$ 629,024,876</u> | <u>\$ 529,673,525</u> |

Alternative Investments

The Cancer Center's investment policy provides for a diversified investment portfolio which considers risk, return, preservation and appreciation of capital as well as the Cancer Center's short-term and long-term liquidity needs. This policy allows participation in alternative investment funds (hedge and real estate funds). The hedge funds principal investment objective is to achieve consistent, positive returns, while attempting to reduce risk and volatility. The real estate fund's objective is to outperform the NFI-ODCE Index over a full market cycle with a lower level of risk. Alternative investments often have liquidity restrictions under which the Cancer Center's capital may be divested only at specified times. The hedge funds are in the process of closing and are conducting compulsory redemptions for all fund investors with expected completion no later than December 2018. Liquidity restrictions may apply to all or portions of a particular invested amount. The real estate fund has quarterly liquidity subject to available cash flow. There were no unfunded commitments for these investments as of June 30, 2018 and 2017. Realized and unrealized gains and losses from these alternative investments are included in the nonoperating gains, net section of the consolidated statements of operations.

Alternative investments accounted for at fair value based on NAV totaled \$23,060,432 and \$18,431,448 as of June 30, 2018 and 2017, respectively, and were classified as investments and assets limited as to use in the accompanying consolidated balance sheets.

Assets Limited as to Use

Assets limited as to use represent funds internally designated for program development and capital expenditures, funds externally designated by donors and under the terms of bond indentures, and funds from the State of Florida Cigarette Tax Trust Fund (Cigarette Tax). The Board of Directors (the Board) retains control over internally designated funds and may, at its discretion, use the funds for other purposes. Amounts required to meet current liabilities have been reclassified to current assets in the consolidated balance sheets and totaled at June 30, 2018 and 2017.

Investments and Investment Income

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

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

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

Investment income is reported net of management fees, and includes interest and dividend income, as well as realized gains and losses on such investments. Investment income is reported as an increase in unrestricted net assets in the period earned unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in temporarily or permanently restricted net assets in the period earned.

Property, Plant, and Equipment

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

The Cancer Center has under construction, or is planning construction projects, with remaining estimated costs to complete of approximately \$93,288,000 as of June 30, 2018, to be primarily funded by the bond proceeds described in Note 6.

Contributed Resources

The Cancer Center reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Unconditional promises to give with payments to be received in future periods are reported as temporarily restricted contributions in the period the pledge is made. If there are no donor restrictions on the pledge, the temporarily restricted net assets are reclassified to unrestricted net assets in the period the payment is received. Conditional promises to give are recognized when the conditions on which they depend have been met.

State Appropriations

The Cancer Center receives an annual appropriation from the State, which is recorded as other revenues in the accompanying consolidated statements of operations and changes in net assets. For the years ended June 30, 2018 and 2017, a portion of the appropriation was redirected to be used as state matching funds for the Cancer Center's participation in the Low Income Pool, and received by the Cancer Center as enhanced Medicaid funding.

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

From January 1, 1999, and continuing through June 30, 2013, the Cigarette Tax funds were to be used for the purposes of constructing, furnishing, and equipping a cancer center research facility (research tower) at the university adjacent to the Cancer Center, as well as for the repayment of the debt incurred for the research tower. As of July 1, 2013, the Cigarette Tax funds are to be used for the purposes of constructing, furnishing, equipping, financing, operating, and maintaining cancer research and clinical and related facilities and other properties owned or leased by the Cancer Center, as well as for the repayment of the debt incurred for the Series 2012A bonds with additional bonds issued for the Series 2016A. No receivable is recorded as of June 30, 2018 or 2017 in the accompanying consolidated balance sheets for the proceeds from the Cigarette Tax related to the period July 1, 2017 to June 30, 2053, as the amounts are subject to future legislative support from the State. For each of the years ended June 30, 2018 and 2017, the Cancer Center received approximately \$15,524,000 from the Cigarette Tax proceeds and applicable earnings. These amounts are recorded as both other operating revenue and increases in temporarily restricted net assets for the years ended June 30, 2018 and 2017.

Deferred Financing Costs

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

Bond Premium and Discount

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

Income Taxes

The Cancer Center, the Hospital, the Moffitt Medical Group, and the Foundation have been recognized by the Internal Revenue Service as tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code of 1986, and are exempt from federal and state taxes on related income pursuant to the Internal Revenue Code and Chapter 220.13 of the *Florida Statutes*, respectively. MTC and M2Gen are corporations subject to income tax. With respect to its for-profit entities, as well as any unrelated business income generated by the tax-exempt entities, the Cancer Center records income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between financial accounting and tax bases of assets and liabilities and are measured using the currently enacted tax rate and laws applicable in the period that the deferred tax asset or liability is expected to be realized or settled. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. During the year ended June 30, 2017, the Cancer Center determined that it is more likely than not that the portion of its deferred tax asset arising from the operations of M2Gen will be realized. Accordingly, the Cancer Center reversed the approximately \$7,700,000 valuation allowance related to M2Gen. For the year ended June 30, 2017, the Cancer Center recognized a net income tax benefit of approximately \$6,100,000. On December 21, 2017, the Tax Cuts and Jobs Act was enacted which reduced the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018. Consequently, the Cancer Center recognized a net income tax expense for the year ended June 30, 2018 of approximately \$4,900,000. An additional \$2,600,000 of net income tax expense was recognized for the year ended June 30, 2018 related to unrelated business income for the Cancer Center. At June 30, 2018 and 2017, the Cancer Center has a deferred income tax asset of approximately \$3,800,000 and \$7,200,000, respectively, which primarily relates to the temporary difference of recognizing revenue on advance payments received by M2Gen. The deferred tax asset is included as a component of other assets in the accompanying consolidated balance sheets.

The Cancer Center recognizes a tax position after determining that a relevant tax authority would more likely than not (greater than 50% likelihood) sustain the position following an audit and records these benefits at the amount most likely to be realized, assuming a review by tax authorities having all relevant information and applying current conventions.

Community Benefit

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

The Cancer Center provides care to patients who meet criteria under established charity care policies without charge or at amounts less than its established rates. The Cancer Center does not pursue collection of amounts determined to qualify as charity care, and they are not reported as revenue. Charity care is reported based upon criteria established by the Cancer Center and the State of Florida Agency for Health Care Administration. The estimated costs of providing the charity care were approximately \$23,222,000 and \$24,501,000 for the years ended June 30, 2018 and 2017, respectively. The Cancer Center also provides services to indigent patients who meet criteria established by Medicaid and other governmental programs at amounts that are less than its established rates. The Cancer Center maintains records to identify and monitor the level of subsidized government indigent care it provides. The estimated costs of providing these services were \$16,965,000 and \$18,867,000 for the years ended

June 30, 2018 and 2017, respectively. The estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies, and other operating expenses) were based on a calculation that multiplied the percentage of the selected operating expenses identified above to gross charges by the gross charity care or indigent care amount.

In addition to the charity and indigent care services noted above, an assessment of 1.0% to 1.5% of certain operating revenues is paid by the Cancer Center to help fund the Florida Medicaid and indigent care program. These assessments were approximately \$10,869,000 and \$9,625,000 for the years ended June 30, 2018 and 2017, respectively.

Multiple-Element Arrangements, Licensing Revenues, and Milestone Payments

The Cancer Center enters into multiple-element revenue arrangements, which may include any combination of services, licensing, and/or access to data. When evaluating agreements with multiple element deliverables, the Cancer Center considers whether the deliverables under the arrangement represent separate units of accounting. This evaluation requires subjective determinations and requires management to make judgments about the individual deliverables and whether such deliverables are separable from the other aspects of the contractual relationship. In determining the units of accounting, management evaluates certain criteria, including whether the deliverables have standalone value, based on the consideration of the relevant facts and circumstances for each arrangement. The consideration received is allocated among the separate units of accounting using the relative selling price method, and the applicable revenue recognition criteria are applied to each of the separate units. Revenue recognized as a single unit of accounting during the period of ongoing involvement is deferred and amortized on a straight-line basis over the period of ongoing involvement. With regard to licensing revenues, the Cancer Center's licensing agreements have terms that include upfront payments upon contract signing and additional payments if and when certain milestones in the product's development or commercialization are reached.

Milestone payments are recognized as other operating revenue upon the achievement of specified milestones if (i) the milestone is substantive in nature and the achievement of the milestone was not reasonably assured at the inception of the agreement; and (ii) the fees are non-refundable. Any milestone payments received prior to satisfying these revenue recognition criteria are recorded as deferred revenue. Royalty revenue is recognized when earned.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09") guidance that further clarifies the accounting for revenue and related revenue transactions, such as the provision for doubtful accounts. In August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We have completed our evaluation of the requirements of the new standard to insure that we have processes, systems and internal controls in place to collect the necessary information to implement the standard, which became effective for us on July 1, 2018, and we are drafting the new disclosures required post implementation. We used a modified retrospective method of application to adopt ASU 2014-09 on July 1, 2018. For our hospital and physician practice, we used a portfolio approach to apply the new model to classes of payers with similar characteristics and analyzed cash collection trends over an appropriate collection look-back period depending on the payer. Adoption of ASU 2014-09 will result in changes to our presentation for and disclosure of revenue related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of our provision for doubtful accounts related to self-pay patients, as well as co-pays and deductibles owed to us by patients with insurance in our hospital and physician practice. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to net operating revenues and, correspondingly, result in a material reduction in the amounts

presented separately as provision for doubtful accounts. We also completed our assessment of the impact of the new standard on various other contractual relationships and concluded that the accounting under the new standard is substantially consistent with our historical accounting practices. While the adoption of ASU 2014-09 will have a material effect on the presentation of net operating revenues in our consolidated financial statements and will impact certain disclosures, it will not materially impact our financial position, results of operations or cash flows. The cumulative effect of the change in accounting principle recorded related to the adoption of ASU 2014-09 on July 1, 2018 was approximately \$4 million.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management is currently evaluating the effect of adopting the new standard on the Cancer Center's financial statements.

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

Note 3 - Subsequent Events

The Cancer Center has evaluated subsequent events for the year ended June 30, 2018 through September 25, 2018, the date the consolidated financial statements were issued.

Note 4 - Assets Limited as to Use

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

| <u>June 30,</u> | <u>2018</u> | <u>2017</u> |
|-----------------------------|-----------------------|-----------------------|
| Cash and cash equivalents: | | |
| Money market funds | \$ 104,223,466 | \$ 120,530,284 |
| Fixed income securities: | | |
| Corporate debt securities | 32,064,348 | 26,856,007 |
| Mortgage-backed securities | 7,580,572 | 11,311,649 |
| Asset-backed securities | 5,971,561 | 4,714,214 |
| Equity securities | 189,932,150 | 135,738,275 |
| U.S. Government obligations | 8,003,110 | 11,061,327 |
| Alternative investments | 23,060,432 | 18,431,448 |
| | <u>370,835,639</u> | <u>328,643,204</u> |
| Less current portion | (20,589,129) | (19,669,978) |
| | <u>\$ 350,246,510</u> | <u>\$ 308,973,226</u> |

Assets limited as to use are designated as follows:

| June 30, | 2018 | 2017 |
|---------------------------------------|-----------------------|-----------------------|
| Investment securities: | | |
| Internally designated | \$ 217,854,537 | \$ 164,296,727 |
| Donor restricted | 60,810,747 | 56,543,030 |
| Held by bond trustee under indenture: | | |
| Construction fund | 64,595,624 | 81,150,595 |
| Principal fund | 9,325,569 | 9,326,169 |
| Interest fund | 5,210,205 | 5,414,378 |
| Revenue allocation fund | 6,053,356 | 4,929,431 |
| | <u>85,184,754</u> | <u>100,820,573</u> |
| Cigarette tax | 6,985,601 | 6,982,874 |
| | <u>370,835,639</u> | <u>328,643,204</u> |
| Less current portion | (20,589,129) | (19,669,978) |
| | <u>\$ 350,246,510</u> | <u>\$ 308,973,226</u> |

Note 5 – Temporarily and Permanently Restricted Net Assets

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

| June 30, | 2018 | 2017 |
|-----------------------------|----------------------|----------------------|
| Research and education | \$ 78,222,847 | \$ 66,140,194 |
| Operations | 3,117,904 | 5,501,698 |
| Patient care | 5,980,308 | 5,585,759 |
| Cigarette tax | 6,985,601 | 6,982,874 |
| Financial aid for employees | 37,347 | 33,970 |
| | <u>\$ 94,344,007</u> | <u>\$ 84,244,495</u> |

Permanently restricted net assets are restricted to:

| June 30, | 2018 | 2017 |
|---|----------------------|----------------------|
| Investment in perpetuity, the income from which is expendable to support: | | |
| Research and education | \$ 13,329,606 | \$ 12,304,455 |
| Patient care | 633,650 | 633,650 |
| Operations | 2,538,183 | 605,275 |
| | <u>\$ 16,501,439</u> | <u>\$ 13,543,380</u> |

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

The following disclosures are made as required by these rules:

The Cancer Center endowment consists of 23 individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

As a result of this interpretation, the Cancer Center classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by FUPMIFA.

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

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

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of FUPMIFA requires the Cancer Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. No permanently restricted endowments had a fair value of assets less than the level required by donor stipulation as of June 30, 2018.

The following is a summary of changes in endowment net assets for the years ended June 30, 2018 and 2017:

| | Unrestricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|----------------------|
| Endowment net assets, June 30, 2016 | \$ 5,052,784 | \$ 13,472,637 | \$ 18,525,421 |
| Investment income | 210,817 | - | 210,817 |
| Net appreciation (realized and unrealized) | 1,046,478 | - | 1,046,478 |
| Contributions and memorials | - | 70,743 | 70,743 |
| Appropriation of endowment assets for expenditure | (976,321) | - | (976,321) |
| Appropriation of endowment interest | 552,121 | - | 552,121 |
| Endowment net assets, June 30, 2017 | 5,885,879 | 13,543,380 | 19,429,259 |
| Investment income | 306,701 | - | 306,701 |
| Net appreciation (realized and unrealized) | 879,573 | - | 879,573 |
| Contributions and memorials | - | 2,958,059 | 2,958,059 |
| Appropriation of endowment assets for expenditure | (561,476) | - | (561,476) |
| Appropriation of endowment interest | 583,506 | - | 583,506 |
| Endowment net assets, June 30, 2018 | <u>\$ 7,094,183</u> | <u>\$ 16,501,439</u> | <u>\$ 23,595,622</u> |

Note 6 - Long-Term Debt

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

| June 30 | 2018 | 2017 |
|--|-----------------------|-----------------------|
| Capital Improvement Hospital Revenue Bonds, Series 2010AC, includes serial bonds in varying amounts from September 1, 2018 to September 1, 2030, plus interest at variable rates as defined (2.24% and 1.61% at June 30, 2018 and 2017, respectively), including unamortized issuance costs of \$210,365 and \$227,655 at June 30, 2018 and 2017, respectively. | \$ 15,749,635 | \$ 16,747,345 |
| Refunding and Capital Improvement Cigarette Tax Allocation Bonds, Series 2012A, including \$78,045,000 in serial bonds due in varying amounts from September 1, 2018 to September 1, 2029, at fixed interest rates ranging from 3.125% to 5.00%, and \$35,360,000 of term bonds at a fixed interest rate of 4.00% due September 1, 2033, including unamortized net original premium and issuance costs of \$6,708,428 and \$7,579,779 at June 30, 2018 and 2017, respectively. | 120,113,428 | 125,739,779 |
| Hospital Revenue Refunding Bonds, Series 2012B, including \$28,795,000 in serial bonds due in varying amounts from July 1, 2018 to July 1, 2032, at fixed interest rates ranging from 3.75% to 5.00%, including unamortized net original premium and issuance costs of \$1,414,566 and \$1,663,797 at June 30, 2018 and 2017, respectively. | 30,209,566 | 32,183,797 |
| Capital Improvement Cigarette Tax Allocation Bonds, Series 2016A, including \$39,270,000 in serial bonds due in varying amounts from September 1, 2018 to September 1, 2030, at fixed interest rates ranging from 5.00% to 5.50%, and \$12,365,000 of term bonds at a fixed interest rate of 3.25% due September 1, 2033, including unamortized net original premium and issuance costs of \$5,253,901 and \$5,917,812 at June 30, 2018 and 2017, respectively. | 56,888,901 | 57,802,812 |
| Hospital Revenue Refunding Bonds, Series 2016B, including \$35,455,000 in serial bonds due in varying amounts from July 1, 2018 to July 1, 2031, at fixed interest rates ranging from 3.125% to 5.00%, and \$45,065,000 of term bonds at a fixed interest rate of 5.00% due July 1, 2037, including unamortized net original premium and issuance costs of \$8,015,424 and \$8,523,622 at June 30, 2018 and 2017, respectively. | 88,535,424 | 92,468,622 |
| | <u>311,496,954</u> | <u>324,942,355</u> |
| Less current portion | (11,515,000) | (11,170,000) |
| | <u>\$ 299,981,954</u> | <u>\$ 313,772,355</u> |

In November 2007, the Cancer Center issued \$116,970,000 in Hospital Revenue Bonds, Series 2007A (2007 Bonds) for new construction and expansion of the Cancer Center. The 2007 Bonds were secured under a Master Trust Indenture that provided, among other things, a security interest in gross revenues, accounts receivable, and certain property. The Indenture provided for the establishment of a debt service reserve fund, which was funded at closing. Under the terms of the Indenture, the Cancer Center was required to maintain a minimum debt service coverage ratio. The Indenture also provided for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. These Hospital Revenue Bonds were refunded and paid during the year ended June 30, 2017.

In September 2010, the Cancer Center issued \$22,000,000 in Hospital Revenue Bonds, Series 2010A, (2010 Bonds) for construction, renovation, and equipping of the new Moffitt at International Plaza location. The 2010 Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. Under the terms of the indenture, the Cancer Center is required to maintain a minimum debt service coverage ratio. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2018, the Cancer Center is in compliance with these requirements.

In September 2012, the Cancer Center issued additional Cigarette Tax Bonds, Series 2012A, in the amount of \$132,310,000, and refunded the existing Series 2002A and Series 2002B Cigarette Tax Bonds. The additional Cigarette Tax Bonds were issued for the construction and equipping of a multistory clinical and research facility, as well as the construction and equipping of clinical and research facilities, including additional bed capacity, operating suites, and associated facilities and infrastructure. The Cigarette Bonds are secured under the Indenture that provides for, among other things, a security interest in the annual collections from the Cigarette Tax Trust Fund as discussed in Note 2. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2018, the Cancer Center is in compliance with these requirements.

In November 2012, the Cancer Center issued \$36,635,000 in Revenue Bonds, Series 2012B (2012B Bonds). The proceeds were used to refinance the existing Series 1999A and Series 2002C Revenue Bonds in order to achieve cost savings based on the current economic environment. The 2012B Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. Under the terms of the Indenture, the Cancer Center is required to maintain a minimum debt service coverage ratio. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2018, the Cancer Center is in compliance with these requirements.

In October 2015, the Cancer Center refunded the existing Series 2010A Hospital Revenue Bond (Original 2010A Bond) to achieve net present value savings and an extended put date. The Original 2010A Bond as issued on September 8, 2010 had an original principal amount of \$22,000,000, of which \$18,440,000 was outstanding at the time of refunding. This refunding was issued in two sub-series of replacement bonds in the amount of \$9,750,000 (Replacement Series 2010A Bond) and \$8,690,000 (Replacement Series 2010B Bond). On October 22, 2015, the Replacement Series 2010B Bond issued on October 6, 2015, was replaced and retired concurrently with the issuance of Replacement 2010C Bond in the full amount of \$8,690,000. The 2010AC Replacement Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. The Indenture also provides for limitations on additional indebtedness and transfer of operating assets, unrestricted cash, and marketable securities. The terms of the Indenture were reaffirmed and remain the same. At June 30, 2018, the Cancer Center is in compliance with these requirements.

In November 2016, the Cancer Center issued additional Cigarette Tax Bonds, Series 2016A, (2016A Bonds) in the amount of \$51,885,000. The 2016A Bonds were issued for the construction and equipping of a clinical support facility, the relocation of a child care center, as well as the retrofitting of existing hospital facilities and clinic operations floors and various facilities, clinical support equipment and infrastructure. The 2016A Bonds are secured under the Indenture that provides for, among other things, a security interest in the annual collections from the Cigarette Tax Trust Fund as discussed in Note 2. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2018, the Cancer Center is in compliance with these requirements.

In November 2016, the Cancer Center issued \$83,945,000 in Hospital Revenue Refunding Bonds, Series 2016B, (2016B Bonds). The proceeds were used to refinance the existing Series 2007A Hospital Revenue Bonds in order to achieve cost savings based on the current economic environment. The 2016B Bonds are secured under the Indenture that provides, among other things, a security interest in gross revenues, accounts receivable, and certain property. Under the terms of the Indenture, the Cancer Center is required to maintain a minimum debt service coverage ratio. The Indenture also provides for limitations on additional indebtedness and transfers of operating assets, unrestricted cash, and marketable securities. At June 30, 2018, the Cancer Center is in compliance with these requirements.

Maturities of long-term debt as of June 30, 2018, are as follows:

| | |
|---|-----------------------|
| 2019 | \$ 11,515,000 |
| 2020 | 12,055,000 |
| 2021 | 12,645,000 |
| 2022 | 13,230,000 |
| 2023 | 13,880,000 |
| Thereafter | <u>226,990,000</u> |
| | 290,315,000 |
| Plus unamortized net premium and issuance costs | <u>21,181,954</u> |
| | <u>\$ 311,496,954</u> |

For the years ended June 30, 2018 and 2017, the Cancer Center incurred interest expense of approximately \$8,912,000 and \$9,552,000, respectively, and paid interest of approximately \$10,982,000 and \$9,826,000, respectively. Interest capitalized was approximately \$1,550,000 (interest costs of approximately \$2,237,000 net of capitalized interest income of approximately \$687,000) and \$1,761,000 (interest costs of approximately \$1,954,000 net of capitalized interest income of approximately \$193,000) in 2018 and 2017, respectively.

At June 30, 2018 and 2017, the Cancer Center had a \$5,000,000 line of credit for the years ended June 30, 2018 and 2017, respectively, for short-term working capital needs and a maturity date of July 2019 with optional renewal. Interest is based upon one month LIBOR. Under the terms of the line of credit agreement, the Cancer Center is required to maintain a minimum debt service coverage ratio and a certain level of unrestricted net assets. At June 30, 2018, the Cancer Center is in compliance with these requirements. There was no outstanding balance under the line of credit at June 30, 2018 and 2017.

Note 7 – Operating Leases

Rental expense for space and equipment incurred under operating leases was approximately \$17,204,000 and \$16,558,000 in 2018 and 2017, respectively. Commitments for noncancelable operating leases with terms in excess of one year are as follows:

| | |
|------------|----------------------|
| 2019 | \$ 6,809,550 |
| 2020 | 6,474,519 |
| 2021 | 5,010,295 |
| 2022 | 3,984,497 |
| 2023 | 4,032,725 |
| Thereafter | 16,367,105 |
| | <u>\$ 42,678,691</u> |

Note 8 – Retirement and Health Plan

The Cancer Center has a defined contribution benefit plan (the Plan) covering substantially all of its employees. As of January 2013, all of the Cancer Center’s contributions to retirement accounts are made through a matching contribution formula. Employee forfeitures are used to reduce the Cancer Center’s required contribution to the Plan. The total retirement costs under the Plan, net of forfeitures, were approximately \$23,792,000 and \$21,345,000 in 2018 and 2017, respectively.

The Cancer Center has an employee health benefit plan covering substantially all health costs for eligible employees and their dependents, including self-insurance coverage for amounts up to specified levels. Health claims expense was approximately \$44,061,000 and \$40,676,000 for the years ended June 30, 2018 and 2017, respectively.

Note 9 – Nonoperating Gains (Losses), Net

Nonoperating gains, net, consist of the following:

| <u>For the years ended June 30,</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Interest income and dividends | \$ 7,108,157 | \$ 4,810,645 |
| Net unrealized and realized investment gain | 12,761,969 | 15,255,237 |
| Loss on sale of property, plant, and equipment | (848,850) | (1,151,286) |
| Loss on early extinguishment of debt | - | (3,141,075) |
| Other gains (losses) | (153,154) | 638,702 |
| | <u>\$ 18,868,122</u> | <u>\$ 16,412,223</u> |

Note 10 – Concentrations of Credit Risk

The Cancer Center grants credit without collateral to its patients, most of whom are from the greater Tampa Bay area, and are insured under third-party payor agreements. The Cancer Center does not charge interest on accounts receivable. Net patient accounts receivable included approximately \$103,806,000 or 78%, and \$83,163,000 or 77%, due from managed care payors, and approximately \$16,421,000 or 12%, and \$15,260,000 or 14%, due from the Medicare program at June 30, 2018 and 2017, respectively. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services. Accounts receivable are reported net of estimated allowances for uncollectible accounts in the accompanying consolidated balance sheets.

Note 11 – Pledges Receivable

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

| <u>June 30,</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|---------------------|
| Pledges due: | | |
| In less than one year | \$ 5,698,395 | \$ 4,663,779 |
| In one to five years | 11,391,278 | 6,621,754 |
| | <u>17,089,673</u> | <u>11,285,533</u> |
| Discounts on pledges greater than one year | (961,932) | (817,151) |
| Allowance for uncollectible pledges | <u>(90,000)</u> | <u>(90,000)</u> |
| | 16,037,741 | 10,378,382 |
| Less current portion | <u>(5,698,395)</u> | <u>(4,663,779)</u> |
| | <u>\$ 10,339,346</u> | <u>\$ 5,714,603</u> |

At June 30, 2018 and 2017, approximately \$4,844,000 and \$4,830,000 respectively, of gross pledges receivable are due from members and officers of the Board of Directors of the Cancer Center and its subsidiaries.

Note 12 – Other Funding Sources

Grant monies received and disbursed by the Cancer Center are for specific purposes, and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Cancer Center does not believe that such disallowances, if any, would have a material effect on the financial position of the Cancer Center.

Note 13 – Affiliated Organizations

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

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

The Cancer Center has other agreements with the University to purchase utility services, to lease parking spaces, and to provide maintenance, cleaning, environmental, and water services to the University. During 2018 and 2017, the Cancer Center paid the University approximately \$10,204,000 and \$8,971,000, and received approximately \$128,000 and \$147,000 in connection with these agreements.

During the years ended June 30, 2018 and 2017, the Cancer Center had agreements with the University to provide professional and support staff, along with other services, at the Cancer Center. These services included research, medical education, administrative, and patient care services. An annual fee was established for these services at the beginning of the fiscal year and was payable in equal monthly installments. The following amounts were paid in relation to these agreements:

| For the years ended June 30, | 2018 | 2017 |
|------------------------------|---------------|---------------|
| Faculty salaries | \$ 10,260,000 | \$ 10,124,000 |
| Other support | 820,000 | 780,000 |

Amounts due from (to) the University are as follows:

| June 30, | 2018 | 2017 |
|--|-----------|-----------|
| Due from (included in prepaid and other current assets) | \$ 21,000 | \$ 19,000 |
| Due to (included in accounts payable and accrued expenses) | (683,000) | (602,000) |

The University of South Florida Foundation, Inc. (the USF Foundation), a Direct Support Organization of the University, controls certain funds for the benefit of the Cancer Center. The income from these funds is distributed to the Cancer Center as determined by the USF Foundation's Board of Directors. Approximately \$7,567,000 and \$7,134,000 of investments, at June 30, 2018 and 2017, respectively, are held by the Foundation for the dual benefit of the Cancer Center and the University. Such amounts are not included in these consolidated financial statements.

Note 14 – Professional Liability and Other Contingencies

The Cancer Center's program of professional liability coverage is a claims-made commercial insurance policy effective July 1, 2008. The Cancer Center is liable for specified retention amounts under the coverage, and claim amounts in excess of retention limits are payable by the commercial insurance carriers. Also, the Cancer Center is statutorily provided sovereign immunity pursuant to Chapter 768.28 of the *Florida Statutes*.

Losses from asserted and unasserted claims identified under the Cancer Center's incident reporting system are accrued based on estimates that incorporate the Cancer Center's past experience, as well as other considerations, including the nature of each claim or incident, and relevant trend factors based on actuarially determined amounts. Accruals for possible losses attributable to incidents that may have occurred but have not been identified under the incident reporting system have been made based upon the Cancer Center's experience and industry data. In the accompanying consolidated balance sheets, accrued expenses and other liabilities include \$2,379,000 and \$3,676,000 for professional liability reserves as of June 30, 2018 and 2017, respectively.

The Cancer Center may be liable for potential losses in excess of the amount recorded at June 30, 2018 and 2017; however, in management's opinion, such losses, if any, would not have a material adverse effect on the consolidated financial position or results of operations of the Cancer Center.

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

Note 15 – Functional Expenses

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

| For the years ended June 30, | 2018 | 2017 |
|------------------------------|------------------|------------------|
| Patient care | \$ 1,015,892,467 | \$ 911,700,493 |
| Research and education | 197,757,302 | 164,606,112 |
| Fund-raising | 6,305,390 | 6,256,141 |
| General and administrative | 16,998,349 | 15,776,449 |
| | \$ 1,236,953,508 | \$ 1,098,339,195 |

Note 16 – Net Assets Released From Restrictions

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

| For the years ended June 30, | 2018 | 2017 |
|--|---------------|---------------|
| Restriction met: | | |
| Patient care | \$ 204,073 | \$ 215,087 |
| Research and education | 30,372,879 | 30,600,925 |
| Financial aid for employees | 1,500 | 3,404 |
| Cigarette Tax – used for payment of principal and interest | 13,858,204 | 11,328,193 |
| Time | 983,612 | 1,774,113 |
| | \$ 45,420,268 | \$ 43,921,722 |

Note 17 – Non-Controlling Interest

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

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

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

- Voting – Each share of Series A Preferred Stock is entitled to one vote.
- Liquidation preference – In the event of a deemed liquidation event, to the extent available, the preferred shares will receive up to the greater of the original purchase price of the shares or such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock immediately prior to such liquidation event.
- Dividends – All holders of Capital Stock are eligible for dividends. Any dividends declared or paid to common shareholders will also be paid to preferred shareholders as if they were converted on a one for one basis to common shares. Any dividends paid on the Preferred Stock will reduce the Original Issue purchase price on a prorata basis in the event of a liquidation event.

- **Conversion** – Each share of Series A Preferred Stock shall be convertible, at the option of the holder, at any time and from time to time, and without the payment of additional consideration by the holder into the number of fully paid and non-assessable share Common stock determined by dividing the Series A Original Issue Price by the Series A Conversion Price in effect at the time of the conversion.

The following table presents the changes in consolidated unrestricted nets assets attributable to the Cancer Center and transfers to the non-controlling interest in M2Gen.

| | Total | Controlling Interest | Non-Controlling Interest |
|---|----------------|----------------------|--------------------------|
| Balance, June 30, 2016 | \$ 464,638,535 | \$ 464,638,535 | \$ - |
| Excess of revenue and gains over expenses and losses | 57,052,542 | 56,189,656 | 862,886 |
| Other changes: | | | |
| Contribution of M2Gen shares to noncontrolling shareholders | - | 2,336,259 | (2,336,259) |
| Net assets released from restrictions and used to purchase property, plant, and equipment | 85,412 | 85,412 | - |
| Net assets released from restrictions and used for payment of long-term debt | 7,721,968 | 7,721,968 | - |
| equipment | 212,273 | 212,273 | - |
| Restricted investment income | (642,121) | (642,121) | - |
| Other | 1,203,289 | 1,050,990 | 152,299 |
| Balance, June 30, 2017 | 530,271,898 | 531,592,972 | (1,321,074) |
| Excess of revenue and gains over expenses and losses | 85,362,391 | 83,853,379 | 1,509,012 |
| Other changes: | | | |
| Net proceeds from sale of M2Gen Corp. convertible preferred stock | 69,714,844 | 43,629,641 | 26,085,203 |
| Net assets released from restrictions and used to purchase property, plant, and equipment | 257,886 | 257,886 | - |
| Net assets released from restrictions and used for payment of long-term debt | 10,191,238 | 10,191,238 | - |
| equipment | 149,845 | 149,845 | - |
| Restricted investment income | (673,506) | (673,506) | - |
| Other | 595,654 | 3,241,228 | (2,645,574) |
| Balance, June 30, 2018 | \$ 695,870,250 | \$ 672,242,683 | \$ 23,627,567 |

SUPPLEMENTARY INFORMATION

Consolidating balance sheet

| June 30, 2018 | H. Lee Moffitt Cancer Center & Research Institute | | | | | | Eliminations | Total |
|---|--|---|--|--|----------------------------------|---------------|-----------------|------------------|
| | H. Lee Moffitt Cancer Center & Research Institute Hospital, Inc. | H. Lee Moffitt Cancer Center & Research Institute, Inc. | H. Lee Moffitt Cancer Center & Research Institute Foundation, Inc. | H. Lee Moffitt Cancer Center & Research Institute Lifetime Cancer Screening Center, Inc. | Moffitt Technologies Corporation | M2Gen Corp. | | |
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | \$ 2,675 | \$ 186,590,637 | \$ 7,373,556 | \$ - | \$ 257,298 | \$ 63,965,071 | \$ - | \$ 258,189,237 |
| Current portion of assets limited as to use | - | 20,589,129 | - | - | - | - | - | 20,589,129 |
| Accounts receivable, net | 123,470,561 | - | - | 9,081,267 | - | - | - | 132,551,828 |
| Current portion of pledges receivable | - | - | 5,698,395 | - | - | - | - | 5,698,395 |
| Inventories | 15,941,336 | - | - | - | - | - | - | 15,941,336 |
| Grant receivables | 14,775,322 | 10,401,701 | - | - | - | - | - | 25,177,023 |
| Prepaid and other current assets | 1,331,299 | 28,283,549 | 536,473 | 75,785 | - | 5,849,266 | (3,235,906) | 32,840,466 |
| Total current assets | 155,521,193 | 245,865,016 | 13,608,424 | 9,157,052 | 257,298 | 69,814,337 | (3,235,906) | 490,987,414 |
| Assets limited as to use, net of current portion | - | 228,369,346 | 121,877,164 | - | - | - | - | 350,246,510 |
| Pledges receivable, less discounts and allowances for uncollectible pledges, net of current portion | - | - | 10,339,346 | - | - | - | - | 10,339,346 |
| Property, plant, and equipment: | | | | | | | | |
| Land | - | 18,106,905 | - | - | - | - | - | 18,106,905 |
| Building and land improvements | 281,109 | 495,740,509 | 214,324 | - | - | - | - | 496,235,942 |
| Equipment | 205,055,266 | 275,910,204 | 158,216 | 58,873 | - | 203,263 | - | 481,385,822 |
| | 205,336,375 | 789,757,618 | 372,540 | 58,873 | - | 203,263 | - | 995,728,669 |
| Less accumulated depreciation | (161,081,996) | (415,739,447) | (372,540) | (48,165) | - | (187,517) | - | (577,429,665) |
| | 44,254,379 | 374,018,171 | - | 10,708 | - | 15,746 | - | 418,299,004 |
| Construction-in-progress | 3,042,326 | 15,755,277 | - | - | - | - | - | 18,797,603 |
| | 47,296,705 | 389,773,448 | - | 10,708 | - | 15,746 | - | 437,096,607 |
| Other assets | 8,933,316 | 569,717 | 831,365 | - | 4,800 | 28,297,453 | (500,100) | 38,136,551 |
| Interest in net assets of Foundation | 4,184,692 | 53,776,950 | - | - | - | - | (57,961,642) | - |
| Total assets | \$ 215,935,906 | \$ 918,354,477 | \$ 146,656,299 | \$ 9,167,760 | \$ 262,098 | \$ 98,127,536 | \$ (61,697,648) | \$ 1,326,806,428 |

Consolidating balance sheet (continued)

| June 30, 2018 | Cancer Center & Research Institute Hospital, Inc. | H. Lee Moffitt Cancer Center & Research Institute, Inc. | Cancer Center & Research Institute Foundation, Inc. | Research Institute Lifetime Cancer Screening Center, Inc. | Moffitt Technologies Corporation | M2Gen Corp. | Eliminations | Total |
|--|---|---|---|---|--|----------------|-----------------|------------------|
| Liabilities and net assets (deficiency) | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable and accrued expenses | \$ 37,089,937 | \$ 40,763,383 | \$ 3,555,323 | \$ 486,829 | \$ - | \$ 6,799,492 | \$ (3,235,906) | \$ 85,459,058 |
| Accrued employee compensation | 3,456,000 | 54,607,816 | 173,000 | 10,140,361 | - | 1,263,038 | - | 69,640,215 |
| Accrued interest | - | 5,181,274 | - | - | - | - | - | 5,181,274 |
| Current portion of deferred revenue | 16,083 | 986,157 | - | - | - | 15,830,443 | - | 16,832,683 |
| Estimated third-party settlements | 1,395,715 | - | - | - | - | - | - | 1,395,715 |
| Current portion of long-term debt | - | 11,515,000 | - | - | - | - | - | 11,515,000 |
| Total current liabilities | 41,957,735 | 113,053,630 | 3,728,323 | 10,627,190 | - | 23,892,973 | (3,235,906) | 190,023,945 |
| Other liabilities | 5,344,403 | 12,867,648 | 877,618 | - | 4,800 | 10,990,364 | - | 30,084,833 |
| Long-term debt, net of current portion | - | 299,981,954 | - | - | - | - | - | 299,981,954 |
| Total liabilities | 47,302,138 | 425,903,232 | 4,605,941 | 10,627,190 | 4,800 | 34,883,337 | (3,235,906) | 520,090,732 |
| Net assets (deficiency): | | | | | | | | |
| Unrestricted | | | | | | | | |
| H. Lee Moffitt Cancer Center and Research Institute, Inc. and Subsidiaries | 164,449,076 | 416,741,730 | 53,137,477 | (1,459,430) | 257,298 | 39,616,632 | (500,100) | 672,242,683 |
| Noncontrolling interest | - | - | - | - | - | 23,627,567 | - | 23,627,567 |
| Total unrestricted net assets | 164,449,076 | 416,741,730 | 53,137,477 | (1,459,430) | 257,298 | 63,244,199 | (500,100) | 695,870,250 |
| Temporarily restricted | 4,184,692 | 75,709,515 | 72,411,442 | - | - | - | (57,961,642) | 94,344,007 |
| Permanently restricted | - | - | 16,501,439 | - | - | - | - | 16,501,439 |
| Total net assets (deficiency) | 168,633,768 | 492,451,245 | 142,050,358 | (1,459,430) | 257,298 | 63,244,199 | (58,461,742) | 806,715,696 |
| Total liabilities and net assets (deficiency) | \$ 215,935,906 | \$ 918,354,477 | \$ 146,656,299 | \$ 9,167,760 | \$ 262,098 | \$ 98,127,536 | \$ (61,697,648) | \$ 1,326,806,428 |

Consolidating statement of operations

| For the year ended June 30, 2018 | H. Lee Moffitt Cancer Center & Research Institute Hospital, Inc. | H. Lee Moffitt Cancer Center & Research Institute, Inc. | H. Lee Moffitt Cancer Center & Research Institute Foundation, Inc. | H. Lee Moffitt Cancer Center & Research Institute Lifetime Cancer Screening Center, Inc. | Moffitt Technologies Corporation | M2Gen Corp. | Eliminations | Total |
|---|---|--|---|---|---|------------------------|---------------------|------------------|
| Unrestricted revenues and other support: | | | | | | | | |
| Net patient service revenues | \$ 1,004,446,042 | \$ - | \$ - | \$ 89,411,742 | \$ - | \$ - | \$ - | \$ 1,093,857,784 |
| Provision for patient service bad debts | (20,715,539) | - | - | (3,350,501) | - | - | - | (24,066,040) |
| Net patient service revenues, less provision for bad debts | 983,730,503 | - | - | 86,061,241 | - | - | - | 1,069,791,744 |
| Other revenues, less provision for grant and other bad debts | 37,181,301 | 152,943,828 | 4,167,811 | 6,095,177 | - | 24,180,613 | (18,367,744) | 206,200,986 |
| Net assets released from restrictions and used for operating expenses | - | 26,009,348 | 8,961,796 | - | - | - | - | 34,971,144 |
| Total unrestricted revenues and other support | 1,020,911,804 | 178,953,176 | 13,129,607 | 92,156,418 | - | 24,180,613 | (18,367,744) | 1,310,963,874 |
| Expenses: | | | | | | | | |
| Salaries, wages, and benefits | 276,475,674 | 175,449,541 | 2,985,003 | 142,465,871 | - | 8,032,993 | - | 605,409,082 |
| Faculty fees | 9,186,835 | 920,151 | - | 153,207 | - | - | - | 10,260,193 |
| Purchased services | 34,179,587 | 81,596,627 | 2,220,534 | 4,893,208 | 1,838 | 4,003,884 | (6,619,960) | 120,275,718 |
| Supplies | 340,875,551 | 22,819,957 | 19,953 | 248,528 | - | 116,136 | - | 364,080,125 |
| Other operating expenses | 24,034,272 | 52,090,298 | 11,635,828 | 1,944,052 | - | 1,467,056 | (11,603,020) | 79,568,486 |
| Intercompany services | 152,630,131 | (170,696,400) | 913,467 | 17,152,802 | - | - | - | - |
| Depreciation and amortization | 16,501,845 | 30,355,422 | - | 925 | - | 1,589,219 | - | 48,447,411 |
| Interest | - | 8,912,493 | - | - | - | 144,764 | (144,764) | 8,912,493 |
| Total expenses | 853,883,895 | 201,448,089 | 17,774,785 | 166,858,593 | 1,838 | 15,354,052 | (18,367,744) | 1,236,953,508 |
| Income (loss) from operations | 167,027,909 | (22,494,913) | (4,645,178) | (74,702,175) | (1,838) | 8,826,561 | - | 74,010,366 |
| Nonoperating gains, net | 144,194 | 9,427,918 | 9,065,346 | 13,439 | 737 | 216,488 | - | 18,868,122 |
| Excess of revenues and gains over expenses and losses before tax | 167,172,103 | (13,066,995) | 4,420,168 | (74,688,736) | (1,101) | 9,043,049 | - | 92,878,488 |
| Income tax (expense) / benefit | - | (2,570,994) | - | - | - | (4,945,103) | - | (7,516,097) |
| Excess (deficiency) of revenues and gains over expenses and losses | \$ 167,172,103 | \$ (15,637,989) | \$ 4,420,168 | \$ (74,688,736) | \$ (1,101) | \$ 4,097,946 | \$ - | \$ 85,362,391 |