PYA
Certified Public Accountants

Audited Financial Statements (and Other Financial Information)

Florida Clinical Practice Association, Inc.
(A Component Unit of the University of Florida)

Years Ended June 30, 2018 and 2017

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Audited Financial Statements (and Other Financial Information)

Years Ended June 30, 2018 and 2017

PYA
Certified Public Accountants

PYA, P.C.
3000 Bayport Drive, Suite 580
Tampa, FL 33607
p: (727) 442-7110 | f: (865) 673-0173
www.pyapc.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Florida Clinical Practice Association, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Florida Clinical Practice Association, Inc. (the FCPA) (a component unit of the University of Florida), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the FCPA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Florida Clinical Practice Association, Inc. as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information: Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the FCPA's basic financial statements. The Statements of Revenue, Expenditures and Changes in Net Position of the Miscellaneous Gifts and Grants Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated September 21, 2018 on our consideration of the FCPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FCPA's internal control over financial reporting and compliance.

PYA, P.C.

Tampa, Florida
September 21, 2018

Management's Discussion and Analysis

This section of the Florida Clinical Practice Association, Inc.'s (the FCPA) annual report presents management's discussion and analysis of the FCPA's financial performance during the fiscal year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes. The financial statements, footnotes, and this discussion and analysis are the responsibility of management.

While maintaining its financial health is crucial to the long-term viability of the FCPA, the primary mission of the FCPA is to bill and collect clinical professional fees to fund the educational, clinical, and research missions of the University of Florida College of Medicine, Gainesville Campus (College of Medicine). Therefore, an increase in net position is only necessary to ensure that there are sufficient reserve funds for future operations and implementation of new programs of the College of Medicine.

FINANCIAL HIGHLIGHTS

The FCPA's net position increased $13.4 million or 9.2% during fiscal year 2018. Operating revenue was $644.6 million and increased $32.6 million or 5.3% over the prior year. Total operating expense of $174.5 million increased $7.2 million or 4.3% when compared to the prior year.

Professional fees from direct patient care of $405.2 million increased $23.6 million or 6.2% during fiscal year 2018 from the prior year. The increase in direct patient care revenue is primarily the result of an increase in volume that resulted from a 5.4% increase in patient visits and a 4.4% increase in work relative value units (WRVUs) in the current fiscal year.

Professional fees from indirect patient care and other revenue of $239.4 million increased $9 million or 3.9% during fiscal year 2018 compared to the prior year. The increase was primarily the result of the Department of Medicine's new contract with Sacred Heart Hospital and the full year of revenue for the Pediatric Subspecialty Program at Sacred Heart Hospital.

Investment income of $852 thousand increased $117 thousand or 15.9% during fiscal year 2018 from the prior year. Investment income was up primarily due to an increase in coupon interest and dividend revenue from the FCPA's investment portfolio.

Interest expense for long-term debt and capital lease obligations in the 2018 fiscal year was $822 thousand. This was a $19 thousand increase from the prior year. The increase in interest expense was the result of a full year of interest on two capital lease obligations that were executed mid fiscal year 2017.

Transfers increased $12.5 million or 2.8% to $458.5 million during the 2018 fiscal year. Current year Salaries and Benefits (excluding housestaff stipends) funded by the FCPA increased by $19.9 million. Salaries increased over the prior year by $17.2 million or 6.4% while benefits increased by $2.7 million or 4.7%. The increase in salaries was primarily the cost of new hires in some clinical departments and a 3% raise implemented during the 2018 fiscal year. Funding of non-salary expenses decreased by $6.4 million or 14.2%. The largest contributors to the decrease in non-salary funding was contractual services expense down $3.4 million, data processing expense down $1 million and operating supplies expense down $.9 million. Housestaff contracts with UF Health Shands Hospital (Shands) and the Veterans Administration Hospital are recognized by the FCPA as contractual revenue. Transfers are made to the University on a bi-weekly basis to fund the housestaff stipends. Transfers to fund housestaff stipends were down approximately $300 thousand in fiscal year 2018. Additionally, the College of Medicine invested approximately $8 million from the FCPA funds in education and research. This investment was $600 thousand less than the prior fiscal year.

The overall financial health of the FCPA remains strong. The FCPA's net position increased by $13.4 million or 9.2% to $159.5 million. Current assets of $151.5 million are more than sufficient to cover current liabilities of only $24.1 million. The FCPA has $55.7 million in long-term debt and capital lease obligations at June 30, 2018.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board. These statements include all assets, liabilities and deferred outflows/inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Table 1 - Condensed Statements of Assets

	2018	*2017*	*Increase (Decrease)*	*Percent Change*	*Percentage of 2018 Total*
ASSETS					
Cash and cash equivalents	$ 73,516,886	$ 62,528,742	$ 10,988,144	17.57%	30.73%
Patient accounts receivable, net	36,853,678	33,963,790	2,889,888	8.51%	15.41%
Other current assets (excluding short term investments)	20,273,522	13,737,992	6,535,530	47.57%	8.48%
Investments - long term and short term	34,161,789	33,087,257	1,074,532	3.25%	14.28%
Property and Equipment, net	70,556,554	48,112,048	22,444,506	46.65%	29.50%
Facilities entitlements, net	2,059,656	2,473,025	(413,369)	-16.72%	0.85%
Other assets	1,784,277	75,106	1,709,171	2275.68%	0.75%
TOTAL ASSETS	$ 239,206,362	$ 193,977,960	$ 45,228,402	23.32%	100.00%

At June 30, 2018, total assets for the FCPA were $239.2 million, an increase of $45.2 million or 23.3% from the prior year.

The FCPA's most significant asset was cash and cash equivalents. Cash and cash equivalents were $73.5 million or 30.7% of total assets at June 30, 2018. Cash and cash equivalents increased by $11 million or 17.6% from the prior year.

The FCPA's second most significant asset was property and equipment, net. Property and equipment, net was $70.6 million or 29.5% of total assets at June 30, 2018. Property and equipment, net increased by $22.4 million or 46.7% from the prior year. The increase in property and equipment, net was primarily the result of construction of the new medical office building. These costs are included in capital assets in progress at June 30, 2018.

Table 2 - Capital Assets, Net

	2018	*2017*	*Increase (Decrease)*	*Percent Change*	*Percentage of 2018 Total*
Building	$ 30,986,452	$ 32,009,302	$ (1,022,850)	-3.20%	42.67%
Land	1,648,523	1,648,523	-	0.00%	2.27%
Leasehold improvements	1,273,397	1,476,822	(203,425)	-13.77%	1.75%
Furniture, fixtures and equipment	6,005,610	7,519,463	(1,513,853)	-20.13%	8.27%
Intangible asset	187,500	562,500	(375,000)	-66.67%	0.26%
Capital assets in progress	30,455,072	4,895,438	25,559,634	522.11%	41.94%
Facilities entitlements	2,059,656	2,473,025	(413,369)	-16.72%	2.84%
TOTAL CAPITAL ASSETS, NET	$ 72,616,210	$ 50,585,073	$ 22,031,137	43.55%	100.00%

At June 30, 2018, the FCPA had $72.6 million invested in a broad range of capital assets, net of accumulated depreciation and amortization of $56.3 million, including facilities entitlements. The amount represents a net increase (including additions and deductions) of approximately $22 million or 43.6% compared to last year. The increase was primarily the result of current year construction cost of the new medical office building.

The FCPA's most significant capital asset is its buildings. During fiscal year 2013, the FCPA placed in service the Main Street Community Health and Family Medicine Clinic and the 39th Avenue Medical Office Building.

For fiscal year 2019, the FCPA has approximately $4.5 million budgeted for capital expenditures that will be used to renovate and equip clinics and fund various additional capital projects, $7.1 million estimated to complete the construction of our new medical office building at 39th Avenue and $36.6 million for construction of the ophthalmology and otolaryngology clinic.

The FCPA's third most significant asset was net patient accounts receivable. Net patient accounts receivable were $36.9 million or 15.4% of total assets at June 30, 2018. Net patient accounts receivable increased by $2.9 million or 8.5% from the prior year. The increase in net patient accounts receivable is consistent with the current growth of charges and patient visits.

Table 3 - Patient Accounts Receivable, Net

	2018	*2017*	*Increase (Decrease)*	*Percent Change*
Beginning accounts receivable	$ 114,920,483	$ 109,106,472	$ 5,814,011	5.33%
Net charges	438,927,491	409,648,656	29,278,835	7.15%
Payments	(413,303,123)	(398,972,854)	(14,330,269)	3.59%
Bad debt write off	(45,595,432)	(28,769,515)	(16,825,917)	58.49%
Refunds	26,837,300	23,907,724	2,929,576	12.25%
Accounts receivable	121,786,719	114,920,483	6,866,236	5.97%
Reserve for contractual adjustments	(86,435,706)	(82,082,098)	(4,353,608)	5.30%
Reserve for uncollectible accounts	(5,204,667)	(5,338,863)	134,196	-2.51%
Sub-total accounts receivable, net	30,146,346	27,499,522	2,646,824	9.62%
Value-Based Reimbursement	-	2,305,979	(2,305,979)	-100.00%
Medicaid Enhanced Payment Program	6,707,332	4,158,289	2,549,043	61.30%
Total accounts receivable, net	$ 36,853,678	$ 33,963,790	$ 2,889,888	8.51%

The FCPA's fourth most significant asset was investments - long term and short term. Investments - long term and short term were $34.2 million or 14.3% of total assets at June 30, 2018. Investments - long term and short term increased by $1.1 million from the prior year. The increase is due to the FCPA's reinvestment of interest and dividend income earned during the year on its investment portfolio.

Table 4 - Condensed Statements of Liabilities

	2018	*2017*	*Increase (Decrease)*	*Percent Change*	*Percentage of 2018 Total*
LIABILITIES					
Accounts payable and accrued expenses	$ 21,694,330	$ 13,292,318	$ 8,402,012	63.21%	27.21%
Long-term debt and capital lease obligations, including current portions	58,021,222	34,604,498	23,416,724	67.67%	72.77%
Unearned revenue	15,149	-	15,149	100.00%	0.02%
TOTAL LIABILITIES	$ 79,730,701	$ 47,896,816	$ 31,833,885	66.46%	100.00%

At June 30, 2018, total liabilities for the FCPA were $79.7 million. Total liabilities increased $31.8 million or 66.5% when compared to the prior year.

The FCPA's most significant liability is its long-term debt and capital lease obligations of $58 million or 72.8% of total liabilities at June 30, 2018. Long-term debt and capital lease obligations was $34.6 million in the prior year. The FCPA had a debt to total assets ratio of 24.3% in fiscal year 2018 and 17.8% in fiscal year 2017. Long-term debt and capital lease obligations increased $23.4 million. The increase is due to advance draws on the 2017 bond debt used to construct the new medical office building.

More detailed information about the FCPA's long-term debt and capital lease obligations is presented in Notes F and G, respectively, to the financial statements.

The FCPA's second most significant liability is its accounts payable and accrued expenses, which is $21.7 million or 27.2% of total liabilities at June 30, 2018. Accounts payable and accrued expenses increased by $8.4 million or 63.2%. Some notable increase in payables are related to the new medical office building (+$1.8 million), Ocala clinics (+$1.5 million) and Medicine's Hospitalist contract reconciliation (+$1.1 million).

Net Position: Net position totaled $159.5 million, which represents 25.2% of total operating expenditures and transfers to the University of Florida, College of Medicine and others during 2018. Net position increased by $13.4 million or 9.2% during fiscal year 2018.

Table 5 - Condensed Statements of Revenue and Expenses

	2018	*2017*	*Increase (Decrease)*	*Percent Change*
OPERATING ACTIVITIES:				
Professional fees from direct patient care	$ 405,156,202	$ 381,523,443	$ 23,632,759	6.19%
Professional fees from indirect patient care	143,878,557	131,423,576	12,454,981	9.48%
Other revenue	95,569,997	99,013,280	(3,443,283)	-3.48%
TOTAL OPERATING REVENUE	644,604,756	611,960,299	32,644,457	5.33%
OPERATING EXPENSES:				
Contractual services	137,707,285	132,403,742	5,303,543	4.01%
Other operating expenses	36,764,025	34,858,883	1,905,142	5.47%
TOTAL OPERATING EXPENSES	174,471,310	167,262,625	7,208,685	4.31%
OPERATING INCOME	470,133,446	444,697,674	25,435,772	5.72%

	2018	2017	Increase (Decrease)	Percent Change
NONOPERATING REVENUE (EXPENSES):				
Investment income	852,444	735,659	116,785	15.87%
Interest expense, net	(821,962)	(803,389)	(18,573)	2.31%
Change in mark-to-market of interest rate swaps	1,708,171	1,044,944	663,227	63.47%
Gain (loss) on disposal of property and equipment	(3,866)	9,087	(12,953)	-142.54%
NET NONOPERATING REVENUE	1,734,787	986,301	748,486	75.89%
INCREASE IN NET POSITION BEFORE TRANSFERS	471,868,233	445,683,975	26,184,258	5.88%
TOTAL TRANSFERS	(458,473,716)	(446,012,365)	(12,461,351)	2.79%
INCREASE (DECREASE) IN NET POSITION	$ 13,394,517	$ (328,390)	$ 13,722,907	4178.84%

Current year revenues were more than operating expenses and transfers resulting in an increase in net position for the current year of $13.4 million.

Operating Revenue: Total operating revenue for the current year was $644.6 million. Professional fees from direct patient care are the most significant source of revenue representing $405.2 million or 62.9% of the total operating revenue.

Table 6 - Professional Fees from Direct Patient Care

	2018	2017	Increase (Decrease)	Percent Change
Charges	$ 1,370,315,328	$ 1,298,870,483	$ 71,444,845	5.50%
Contractual adjustments	(943,091,965)	(905,244,454)	(37,847,511)	4.18%
Provision for bad debt	(22,067,161)	(12,102,586)	(9,964,575)	82.33%
Net direct charges from patient care	$ 405,156,202	$ 381,523,443	$ 23,632,759	6.19%

Professional fees from direct patient care increased $23.6 million or 6.2% during the 2018 fiscal year when compared to the prior year. Total charges increased $71.4 million or 5.5%. The increased charges were primarily the result of increased volume that was evidenced by an increase in WRVUs of 4.4% and patient visits of 5.4%.

Contractual adjustments increased $37.8 million or 4.2%. Contractual adjustments in absolute dollars increased as a result of an increase in charges. Contractual adjustments as a percentage of charges decreased .9 percent to 68.8% compared to the prior year.

Provision for bad debt increased $10 million or 82.3%. The increase is primarily due to a change in the bad debt write off policy that took effect in April 2017 when the FCPA and Shands began using the Single Billing Office (SBO) module within the Epic billing and receivable system. SBO allows the hospital and the FCPA to bill self-pay patients on a single statement. Prior to

SBO implementation, the patient received two statements for professional and hospital services. With the new policy, implemented for consistency between the two organizations, patient accounts are written off as bad debt at 120 days past due instead of 75. May and June 2017 saw a significant decrease in monthly bad debt write off. August and September 2017 saw a significant increase. These occurrences crossed fiscal years. The provision also increased as a result of the increase in charges during fiscal year 2018.

Professional fees from indirect patient care of $143.9 million increased $12.5 million or 9.5% during the 2018 fiscal year. The increase was primarily the result of the Department of Medicine's new contract with Sacred Heart Hospital and the full year of revenue for the Pediatric Subspecialty Program at Sacred Heart Hospital.

Other revenue decreased $3.4 million or 3.5% during the 2018 fiscal year. The primary reason for the decrease was a reduction in ASA support payments from Shands in the current year of $4.1 million.

Operating Expenses: Total operating expenses for the current year were $174.5 million. Operating expenses increased $7.2 million or 4.3% when compared to the prior year. The contractual services expense of $137.7 million (78.9% of total operating expenses) is the most significant operating expense. This expense increased $5.3 million or 4% from the prior year. Other operating expenses increased $1.9 million or 5.5% in the current year.

In July 2002, the College of Medicine entered into an employee-leasing contract with Shands to staff the College of Medicine's medical clinics and medical billing. Contractual services for clinic and billing operations provided by Shands represent the largest portion of the contractual services at $66.2 million. Contractual services provided by Shands increased $3.4 million or 5.4% over the prior fiscal year. The increase is attributed to additional costs associated with raises for leased employees and the full year effect for expenditures of leased employees for the Ocala clinics.

Other operating expenses were $36.8 million and increased $1.9 million or 5.5% compared to the prior year. The increase in the other operating expenses was in part due to an increase in costs associated with a full year of expenses at UFP Specialties – Ocala Operations and Medicine's Hemophilia Treatment Center Program. Supplies to stock the soon to be open clinics at the new medical office building was a factor as well. Other operating expenses as a percentage of operating revenue were 5.7% in the prior fiscal year and the current fiscal year.

Nonoperating Revenue (Expenses): Total nonoperating revenue (net of expenses) for the current year was a net operating revenue of $1.7 million compared to $1 million in the prior fiscal year. This resulted in a positive variance of $748 thousand.

Investment income increased $117 thousand from the prior year. Investment income was up primarily due to an increase in coupon interest and dividend revenue from the FCPA's investment portfolio.

An increase in fair value of the mark-to-market interest rate swaps of $663 thousand also contributed to the non-operating revenue. The increase was a result of the current market. See Note I to the financial statements for additional information.

Interest expense for long-term debt and capital lease obligations in the 2018 fiscal year was $822 thousand. This was a $19 thousand increase from the prior year. The increase in interest expense was the result of a full year of interest on two capital lease obligations that were executed mid fiscal year 2017.

Transfers: Transfers increased $12.5 million or 2.8% to $458.5 million during the 2018 fiscal year. Current year Salaries and Benefits (excluding housestaff stipends) funded by the FCPA increased by $19.9 million. Salaries increased over the prior year by $17.2 million or 6.4% while benefits increased by $2.7 million or 4.7%. The increase in salaries was primarily the cost of new hires in some clinical departments and a 3% raise implemented during the 2018 fiscal year. Funding of non-salary expenses decreased by $6.4 million or 14.2%. The largest contributors to the decrease in non-salary funding was contractual services expense down $3.4 million, data processing expense down $1 million and operating supplies expense down $.9 million. Housestaff contracts with Shands and the Veterans Administration Hospital are recognized by the FCPA as contractual revenue. Transfers are made to the University on a bi-weekly basis to fund the housestaff stipends. Transfers to fund housestaff stipends were down approximately $300 thousand in fiscal year 2018. Additionally, the College of Medicine invested approximately $8 million from the FCPA funds in education and research. This investment was $600 thousand less than the prior fiscal year.

Table 7 - Operational Key Indicators

	2018	*2017*	*Increase (Decrease)*	*Percent Change*
WRVUs	4,350,507	4,169,314	181,193	4.35%
Patient visits	993,902	943,142	50,760	5.38%

Total WRVUs increased 5.5% from the prior year. Patient visits increased 4.5%.

Table 8 - Condensed Statements of Cash Flows

	2018	*2017*	*Increase (Decrease)*	*Percent Change*
CASH PROVIDED BY (USED IN):				
Operating activities	$ 474,643,729	$ 445,039,352	$ 29,604,377	6.65%
Noncapital financing activities	(458,473,716)	(446,012,365)	(12,461,351)	2.79%
Capital and related financing activities	(4,960,794)	(5,024,749)	63,955	-1.27%

	2018	2017	Increase (Decrease)	Percent Change
Investing activities	(221,075)	(7,855,947)	7,634,872	-97.19%
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,988,144	(13,853,709)	24,841,853	-179.32%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	62,528,742	76,382,451	(13,853,709)	-18.14%
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 73,516,886	$ 62,528,742	$ 10,988,144	17.57%

Total cash and cash equivalents increased by $11 million in the current year.

Funds From Operating Activities: Cash provided by operating activities of $474.6 million was $29.6 million or 6.7% more than cash provided by operating activities in the prior fiscal year. The major source of operating funds was receipts from and on behalf of patients of $545.9 million, an increase of $40.2 million or 7.9% from the prior year. The largest category of payments from operating funds was payments to contractors of $137.7 million, which increased $5.3 million or 4% from the prior year.

Funds From Noncapital Financing Activities: Cash used in noncapital financing activities of $458.5 million was $12.5 million or 2.8% more than cash used in the prior fiscal year. Cash used by noncapital financing activities are primarily funds transferred to the University.

Funds From Investing Activities: Cash used in investing activities in the current fiscal year was $221 thousand. In the prior year, cash used in investing activities was $7.9 million. The decrease of cash used of $7.7 million from the prior year is due to last fiscal year's investment in UF Health South Central, LLC partnership (the LLC). The LLC is the landlord of the Ocala clinical operations.

Funds From Capital and Related Financing Activities: Cash used in capital and related financing activities was $5 million for fiscal 2018 and 2017. The largest use of funds for capital and related financing activities was for the purchase of property and equipment of $27.6. The FCPA had debt cash proceeds of $24.8 million for the new medical office building.

ECONOMIC FACTORS

The College of Medicine received approximately 6.8% of its funding from an appropriation from the State of Florida in the current fiscal year that is allocated to the College of Medicine by the University. The appropriation is for one year only. The amount that will be appropriated from year to year may, and has, varied depending upon economic and political conditions. The increase (decrease) in state funding directly results in a decrease (increase) in the use of FCPA funds.

In the current fiscal year, the College of Medicine began participating in the Low Income Pool (LIP) program that is a federal matching program that provides federal funds to Florida health care providers to cover costs for the state's most vulnerable patients. Medical school physician practices are eligible under this program. The College of Medicine received $9,549,189 in 2018 from the Program. The revenue from the Program represents 1.5% of the FCPA's total operating revenue for fiscal year 2018. The program is projected to continue throughout fiscal year 2019.

In fiscal year 2018, the FCPA received 28% of its total operating revenue from Shands in the manner of both support and payment for services rendered. The ability of Shands to continue to fund support and commerce payments to the FCPA directly impacts the financial condition of the College of Medicine.

A significant portion of the FCPA's revenue is derived from reimbursement for patient services, by third party payers such as Medicare, Medicaid, and private insurance carriers. Therefore, the reimbursement rates contracted with these payers have a significant effect on the financial health of the College of Medicine.

CONTACTING THE FCPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide the FCPA's Board of Directors, its creditors, and the Board of Trustees of the University of Florida with a general overview of the FCPA's financial position. If you have questions about this report or need additional information, contact the College of Medicine Dean's Office at (352) 265-8017.

Audited Financial Statements

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Net Position

		June 30,		
		2018		2017
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	**73,516,886**	$	62,528,742
Investments		**20,885,379**		19,872,731
Patient accounts receivable, net of estimated contractual adjustments and uncollectible accounts of $91,640,373 in 2018 and $87,420,961 in 2017		**36,853,678**		33,963,790
Interest receivable		**99,052**		100,065
Due from affiliates		**12,972,747**		7,596,543
Other receivables		**7,197,323**		6,037,584
Other assets		**4,400**		3,800
TOTAL CURRENT ASSETS		**151,529,465**		130,103,255
INVESTMENTS				
Long-term investments		**5,140,940**		5,329,640
Investment in UF Health South Central, LLC		**8,135,470**		7,884,886
TOTAL LONG-TERM INVESTMENTS		**13,276,410**		13,214,526
CAPITAL ASSETS:				
Property and equipment, net		**70,556,554**		48,112,048
Facilities entitlements, net		**2,059,656**		2,473,025
TOTAL CAPITAL ASSETS, NET OF DEPRECIATION AND AMORTIZATION		**72,616,210**		50,585,073
OTHER ASSETS:				
Estimated fair value of interest rate swaps, net		**1,746,853**		38,682
Deposits		**37,424**		36,424
TOTAL OTHER ASSETS		**1,784,277**		75,106
TOTAL ASSETS	$	**239,206,362**	$	193,977,960

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Net Position - Continued

	June 30, 2018	June 30, 2017
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	**$ 21,694,330**	$ 13,292,318
Current portion of long-term debt and capital lease obligations	**2,358,432**	1,390,096
Unearned revenue	**15,149**	-
CURRENT LIABILITIES	**24,067,911**	14,682,414
OTHER LIABILITIES:		
Long-term debt and capital lease obligations, less current portion	**55,662,790**	33,214,402
TOTAL LIABILITIES	**79,730,701**	47,896,816
COMMITMENTS AND CONTINGENCIES - Notes H and K		
NET POSITION:		
Net investment in capital assets	**12,535,332**	13,507,550
Unrestricted	**146,940,329**	132,573,594
TOTAL NET POSITION	**159,475,661**	146,081,144
TOTAL LIABILITIES AND NET POSITION	**$ 239,206,362**	$ 193,977,960

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Revenue, Expenses and Changes in Net Position

	Year Ended June 30, 2018	2017
OPERATING REVENUE:		
Direct revenue from patient care (net of estimated contractual allowances and discounts)	**$ 427,223,363**	$ 393,626,029
Estimated provision for bad debts	**(22,067,161)**	(12,102,586)
Net direct revenue from patient care less estimated provision for bad debts	**405,156,202**	381,523,443
Indirect revenue from patient care	**143,878,557**	131,423,576
TOTAL NET PATIENT SERVICE REVENUE	**549,034,759**	512,947,019
Other revenue	**95,569,997**	99,013,280
TOTAL OPERATING REVENUE	**644,604,756**	611,960,299
OPERATING EXPENSES:		
Contractual services	**137,707,285**	132,403,742
Insurance	**2,695,260**	2,748,542
Depreciation and amortization	**4,493,543**	4,511,290
Operating supplies	**14,226,276**	12,570,862
Occupancy expenses	**6,279,916**	6,437,505
Printing and reproduction	**173,659**	206,996
Dues and subscriptions	**1,379,578**	1,660,194
Food and entertainment	**297,559**	457,058
Repairs and maintenance	**4,605,809**	3,585,991
Travel	**235,585**	259,635
Advertising	**253,364**	230,194
Telephone, freight, and postage	**1,731,613**	1,735,111
Other	**391,863**	455,505
TOTAL OPERATING EXPENSES	**174,471,310**	167,262,625
OPERATING INCOME	**470,133,446**	444,697,674
NONOPERATING REVENUE (EXPENSES):		
Investment income	**852,444**	735,659
Interest expense, net	**(821,962)**	(803,389)
Change in mark-to-market of interest rate swaps	**1,708,171**	1,044,944
Gain (loss) on disposal of property and equipment	**(3,866)**	9,087
NET NONOPERATING REVENUE	**1,734,787**	986,301
INCREASE IN NET POSITION BEFORE TRANSFERS	**471,868,233**	445,683,975

See accompanying notes to financial statements.

Statements of Revenue, Expenses and Changes in Net Position - Continued

	Year Ended June 30, 2018	2017
TRANSFERS:		
Transfers to the University of Florida College of Medicine	**(450,516,512)**	(437,418,322)
Transfers to others	**(7,957,204)**	(8,594,043)
TOTAL TRANSFERS	**(458,473,716)**	(446,012,365)
INCREASE (DECREASE) IN NET POSITION	**13,394,517**	(328,390)
NET POSITION, BEGINNING OF YEAR	**146,081,144**	146,409,534
NET POSITION, END OF YEAR	**$ 159,475,661**	$ 146,081,144

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Cash Flows

	Year Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on behalf of patients	**$ 545,901,807**	$ 505,726,804
Other receipts	**89,277,118**	98,370,779
Payments to contractors	**(137,707,285)**	(132,403,742)
Payments to suppliers and others	**(22,436,048)**	(26,237,666)
Other	**(391,863)**	(416,823)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**474,643,729**	445,039,352
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers to the University of Florida College of Medicine	**(450,516,512)**	(437,418,322)
Transfers to others	**(7,957,204)**	(8,594,043)
CASH USED IN NONCAPITAL FINANCING ACTIVITIES	**(458,473,716)**	(446,012,365)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	**(27,555,556)**	(4,657,607)
Proceeds from the sale of property and equipment	**-**	185,249
Proceeds from the issuance of debt	**24,814,436**	1,633,604
Principal payments on capital lease obligations	**(91,590)**	(76,484)
Principal payments on long-term debt	**(1,306,122)**	(1,306,122)
Interest paid under capital lease obligations and long-term debt	**(821,962)**	(803,389)
CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(4,960,794)**	(5,024,749)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales, calls and maturities of investments	**1,000,000**	9,000,000
Interest and dividends received	**427,050**	429,422
Purchase of investments	**(1,397,541)**	(9,400,483)
Investment in UF Health South Central, LLC	**(250,584)**	(7,884,886)
NET CASH USED IN INVESTING ACTIVITIES	**(221,075)**	(7,855,947)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,988,144**	(13,853,709)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**62,528,742**	76,382,451
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 73,516,886**	$ 62,528,742

Statements of Cash Flows - Continued

	Year Ended June 30, 2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	**$ 470,133,446**	$ 444,697,674
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**4,493,543**	4,511,290
Increase (decrease) in cash due to changes in:		
Accounts receivable, net	**(2,889,888)**	(7,220,215)
Due from affiliates	**(5,376,204)**	1,010,863
Other receivables	**(1,159,739)**	(1,662,451)
Other assets	**(1,600)**	1,383
Accounts payable and accrued expenses	**9,429,022**	3,700,808
Unearned revenue	**15,149**	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 474,643,729**	$ 445,039,352
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset additions included in accounts payable	**$ 815,306**	$ 1,842,316
Capital lease obligations for equipment	**$ -**	$ 448,639

NOTE A--REPORTING ENTITY

The Florida Clinical Practice Association, Inc. (the FCPA) is a not-for-profit corporation formed by the physicians at the University of Florida College of Medicine (the College of Medicine) and activated in 1984. The FCPA performs the billing and collection of professional fees associated with the practice of medicine at the College of Medicine. The FCPA was formed primarily for the purpose of enhancing the quality of medical education at the College of Medicine. The FCPA transfers funds to the College of Medicine for use in funding salary supplements and other related costs for the benefit of the faculty of the College of Medicine. The FCPA also transfers funds to the University of Florida (the University) in the furtherance of its above stated purpose. The College of Medicine may, from time-to-time, be contractually obligated to provide for physician incentive compensation. The FCPA may be requested to transfer funds to satisfy the College of Medicine's incentive obligations. The FCPA accounts for such transactions as these transfers are required. The FCPA is an affiliated organization component unit of the University and is, therefore, included by discrete presentation in the financial statements of that reporting entity.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The FCPA is accounted for as an internal service fund. Internal service funds are used to account for the financing of goods and services by one college or agency to independent agencies and other governments.

The FCPA's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities, as prescribed by the Governmental Accounting Standards Board (GASB). The FCPA has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting.

Basis of Accounting: The FCPA's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenue, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenue, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The FCPA follows GASB standards of accounting and financial reporting.

Cash and Cash Equivalents: The FCPA considers all highly liquid investments, including cash and interest-bearing deposits with original or remaining maturity dates of less than 90 days when purchased and overnight repurchase agreements, as cash equivalents for purposes of reporting cash flows.

The FCPA has funds in the University Strategic Fund (the Fund) which is a pooled asset fund managed by the University. The FCPA has classified amounts held in the Fund as cash and cash equivalents due to the University depositing amounts included in the Fund in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The FCPA may withdraw amounts they have transferred to the Fund without University approval. Additionally, the FCPA can access up to $10,000,000 the same day requested and amounts in excess of that within two working days; thus, these amounts are highly liquid and easily accessible. At June 30, 2018 and 2017, cash and cash equivalents included $20,000,000 held in the Fund.

Investments: Investments are stated at fair value based on market prices. The portion of investments related to financial instruments with remaining maturities of less than one year is classified as current assets. Investment income is reported, net of investment expenses, as nonoperating revenue. The cost of securities sold is determined by the specific identification method, with net realized gains and losses being reported in nonoperating revenue as a component of investment income.

Any changes in fair value are recognized in the statements of revenue, expenses and changes in net position as a component of investment income.

Derivative Instruments: The FCPA records all derivatives as assets or liabilities on the statements of net position at estimated fair value and includes credit value adjustments. The FCPA's derivative holdings consist of interest rate swap agreements. Since these derivatives have not been determined to be effective, the gain or loss resulting from changes in the fair value of the derivatives is recognized in the accompanying statements of revenue, expenses and changes in net position. The FCPA's objectives in using derivatives are to manage exposure to interest rate risks associated with various debt instruments (see Note I).

Net Patient Service Revenue and Receivables: Patient service revenue is recognized as revenue in the period when the services are performed and is reported on the accrual basis at the estimated net realizable amounts from patients, third-party payers and others. A significant portion of the services provided by the FCPA is to patients whose bills are reimbursed by third-party payers such as Medicare, Medicaid and private insurance carriers. Net patient service revenue includes amounts estimated by management to be reimbursable by third-party payer programs under payment formulas in effect. Net patient service revenue also includes an estimated provision for bad debts based upon management's evaluation of collectability of patient receivables considering the age of the receivables and other criteria, such as payer classifications.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an allowance for contractual adjustments. Individual accounts are charged-off against the estimated allowance for uncollectible accounts when management determines that it is unlikely that the account will be collected. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid and other third-party payment programs. The FCPA's policy does not require collateral or other security for patient accounts receivable and the FCPA routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Capital Assets: The FCPA's capital assets are reported at historical cost. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated utilizing the straight-line method over the following estimated service lives which consist of 2-40 years for building and leasehold improvements; 3-7 years for furniture, equipment and computer hardware; and 3-10 years for computer software. Facilities entitlements are being amortized utilizing the straight-line method over the estimated useful lives of the related facilities of 25 years (see Note E). Maintenance and repair costs are expensed as incurred. The FCPA periodically reviews capital assets for indications of potential impairment. If this review indicates that the carrying amount of these assets may not be recoverable, the FCPA estimates the future cash flows expected to result from the operations of the asset and its eventual disposition. If the sum of these future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, a write-down to estimated fair value is recorded.

Net Position: Net position of the FCPA is classified in components. *Net investment in capital assets* consists of property and equipment net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted* is the remaining net position that does not meet the definition of net investment in capital assets. The FCPA had no restricted net position at June 30, 2018 and 2017.

Operating Revenue and Expenses: The FCPA's statements of revenue, expenses and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare and education services - the FCPA's principal activity. Other sources of revenue, including investment earnings, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare and education services, other than financing costs and nonoperating losses.

Income Taxes: The FCPA is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is exempt from state income taxes. Accordingly, no provision for income taxes has been included in the accompanying financial statements. There were no uncertain tax positions. Tax returns for the years ended June 30, 2015 through 2018 are subject to examination by taxing authorities.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates associated with contractual allowances, allowances for uncollectible accounts, amounts to be received under the Medicaid Enhanced Payment Program and interest rate swaps are particularly susceptible to material change in the near term. Future results could differ from the current estimates.

Recently Issued/Adopted Accounting Pronouncements: In June 2017, the GASB issued Statement No. 87, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases with a maximum possible term exceeding 12 months. The lease liability is measured at the present value of payments made during the lease term. In later periods, the lessee should amortize the discount of the lease liability and report it as an outflow of resources (interest expense) for the period. The lease asset is measured as the sum of the amount of the initial measurement of the lease liability, lease payments made to the lessor at/before the beginning of the lease term, and any initial direct costs. A lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset and reported as an amortization expense. The Statement requires a disclosure of the general description of the leasing arrangements within the footnotes to the financial statements. For leases that have been significantly affected by the existence of related parties, the Statement indicates that accounting should be modified as necessary, and the nature and extent of these transactions should be disclosed. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019; early adoption is permitted. Management is currently evaluating the impact of the adoption of the Statement on the financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 and are to be applied prospectively. Early application is permitted. Management is currently evaluating the impact of the adoption of the Statement on the financial statements.

Reclassifications: Certain amounts in the June 30, 2017 financial statements have been reclassified to conform to current year presentation.

NOTE C--INVESTMENTS

The FCPA had the following investments as of June 30, 2018 and 2017:

Investments	*Maturities*	*Call Options*	*Fair Value* 2018	*Fair Value* 2017
Federal National Mortgage Association	08/12/2019	Non Call	$ 1,061,620	$ 1,136,230
Goldman Sachs Group Inc.	12/10/2017	Non Call	-	996,920
HSBC USA Inc.	04/17/2024	Non Call	979,800	936,460
U.S. Treasury Bonds	08/15/2019	Non Call	2,125,000	2,280,240
Vanguard S-T Corp Fund	N/A	N/A	3,771,907	3,763,471
Vanguard Dividend Growth Fund	N/A	N/A	6,315,448	5,711,858
Federal Farm Credit Bank	12/01/2020	09/01/16 & anytime thereafter	974,520	976,710
Dreyfus Treasury & Agency Investments	N/A	N/A	10,798,024	9,400,482
	Total		$ 26,026,319	$ 25,202,371

Interest Rate Risk: The FCPA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. Investments of the FCPA and their future maturities as of June 30, 2018 are as follows:

		Investment Maturities (in Years)			
Types of Investments	***Fair Value***	***Less than 1***	***1-5***	***6-10***	***More than 10***
U.S. Treasury Bonds	$ 2,125,000	$ -	$ 2,125,000	$ -	$ -
Federal Agency Securities and Commercial Bonds and Notes	3,015,940	-	3,015,940	-	-
Money Market Fund	10,798,024	10,798,024	-	-	-
Stock Mutual Fund	6,315,448	6,315,448	-	-	-
Bond Mutual Fund	3,771,907	3,771,907	-	-	-
TOTAL	$ 26,026,319	$ 20,885,379	$ 5,140,940	$ -	$ -

Credit Risk: The FCPA's investment policy limits investments in commercial paper to prime rated corporations with at least $250,000,000 in equity capital. The FCPA has no investment policy that would further limit its investment choices. As of June 30, 2018, the FCPA had investments with quality ratings by nationally recognized rating agencies (i.e., Moody's Investor Service and Standard and Poor's Rating Agency) as follows:

Types of Investments	*Fair Value*	*AAA/Aaa*	*AA/Aa*	*A/A2 A3*	*Less than A/Ba or Not Rated*
Federal Agency Securities and Commercial Bonds and Notes	$ 3,015,940	$ 2,036,140	$ -	$ 979,800	$ -
Money Market Fund	10,798,024	10,798,024	-	-	-
Bond Mutual Fund	3,771,907	-	3,771,907	-	-
TOTAL	$ 17,585,871	$ 12,834,164	$ 3,771,907	$ 979,800	$ -

Custodial Credit Risk: The majority of the FCPA's investments are uninsured and unregistered securities held by the counterparty or by its trust department or agent but not in the FCPA's name.

Concentration of Credit Risk: The FCPA's investment policy limits investments in commercial paper to no more than $2,000,000 in any individual corporation. The FCPA has no investment policy that would further limit its investment choices. The FCPA's investments were concentrated with various issuers as of June 30, 2018 as follows:

Issuer	*Fair Value*	*% Total*
Federal Farm Credit Bank	$ 974,520	3.7%
Federal National Mortgage Association	1,061,620	4.1%
HSBC USA Inc.	979,800	3.8%
U.S. Treasury Bonds	2,125,000	8.1%
Vanguard Dividend Growth Fund	6,315,448	24.3%
Vanguard S-T Corp Fund	3,771,907	14.5%
Dreyfus Treasury & Agency Investments	10,798,024	41.5%
TOTAL	$ 26,026,319	100.0%

The changes in fair value of investments for the years ended June 30, 2018 and 2017 are as follows:

	2018	*2017*
Fair value at end of year	$ 26,026,319	$ 25,202,371
Add: Proceeds of called/matured investments	1,000,000	9,000,000
Less: Cost of investments purchased	(1,397,541)	(9,400,483)
Add: Amortization of discount/premium	4,241	4,253
Less: Reinvested dividends	(426,291)	(254,731)
Less: Fair value at beginning of year	(25,202,371)	(24,467,870)
Change in fair value of investments	$ 4,357	$ 83,540

The FCPA had $53,837,503 and $43,961,482 at June 30, 2018 and 2017, respectively, on deposit in sweep accounts with financial institutions. These deposits were uninsured and collateralized with securities held by the pledging financial institutions. The FCPA does not have a deposit policy.

Investment in UF Health South Central, LLC: During fiscal year 2017, the FCPA and Shands entered an operating agreement for equal ownership and control of the UF Health South Central, LLC (the LLC). The LLC is considered a joint venture of the FCPA and Shands, and the investment is accounted for under the equity method. The following is the condensed, unaudited financial information related to the LLC as of and for the period ended June 30, 2018.

Assets	$ 16,291,499
Liabilities	$ 20,558
Net position	$ 16,270,941
Net gain	$ -

NOTE D--NET PATIENT SERVICE REVENUE AND PATIENT ACCOUNTS RECEIVABLE

Net patient service revenue is derived principally from professional fees generated by the faculty of the College of Medicine from treating patients. Net patient service revenue is classified into two components. The first component, direct revenue from patient care, is revenue from professional fees charged to individual patients and funded through third party payers and private patient payments based on established reimbursement rates. The second component of net patient service revenue is indirect revenue from patient care professional services performed, which is not funded by healthcare managed care or health maintenance organizations (HMOs). The indirect revenue from patient care is not based on established reimbursement rates from third party payers. Indirect revenue from patient care services is based on negotiated contracts with sponsoring organizations to receive professional services at negotiated fees for the sponsoring organization's members. A reconciliation of the net patient service revenue and amounts of services provided to patients at established rates to direct revenue from patient care, as presented in the statements of revenue, expenses and changes in net position is as follows:

	Year Ended June 30,	
	2018	***2017***
Gross direct charges from patient care	$ 1,370,315,328	$ 1,298,870,483
Less: Contractual adjustments	(943,091,965)	(905,244,454)
Estimated provision for bad debts	(22,067,161)	(12,102,586)
Total direct revenue from patient care	405,156,202	381,523,443

	Year Ended June 30, 2018	2017
Indirect revenue from patient care	143,878,557	131,423,576
Total net patient service revenue	$ 549,034,759	$ 512,947,019

Patient service revenue, net of contractual allowances by major payer source, is as follows:

	Year Ended June 30, 2018	2017
Third-party payers	$ 344,005,574	$ 318,022,144
Patients, including self-insured	35,381,378	29,300,018
Medicaid Enhanced Payment Program	47,836,411	46,303,867
	$ 427,223,363	$ 393,626,029

Contractual adjustments for 2018 and 2017 include approximately $56,000,000 and $51,000,000, respectively, related to adjustments provided to self-insured patient accounts, offered under a discount program according to the FCPA's self-pay discount policy.

Accounts receivable are reduced by an estimated allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, FCPA analyzes its past history for each of its major payer sources of revenue to estimate the appropriate allowance and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for bad debts.

A summary of the payment arrangements with major third-party payers follows:

Medicare: All College of Medicine faculty physicians are participating in the Medicare program. Medicare pays 80% of the allowed charge with the patient being responsible for a 20% co-payment and an annual deductible. A contractual adjustment is recorded for the difference between the physician's charge and the Medicare allowable amount.

Medicaid: Services furnished by the College of Medicine to Medicaid patients are reimbursed under a state fee schedule.

Medicaid Enhanced Payment Program: Physicians employed by or under contract with designated Florida medical schools are eligible to receive supplemental reimbursement under the Medicaid Enhanced Payment Program (the Program). Net patient service revenue for the years ended June 30, 2018 and 2017 includes $47,836,411 and $46,303,867, respectively, related to the Program. Net patient accounts receivable at June 30, 2018 and 2017 includes $6,707,332 and $4,158,289, respectively, in expected future payments under the Program.

The future of the Medicaid Enhanced Payment Program is uncertain. If this program were to be discontinued or further modified, the impact on the FCPA could be significant.

Low Income Pool (LIP): During 2018, the FCPA began receiving funding under the LIP program which is a federal matching program that provides federal funds to Florida health care providers to cover costs for the state's most vulnerable patients. Medical school physician practices are eligible under this program. Funding for the LIP program comes from intergovernmental transfers (IGTs) and federal matching funds. IGTs are transfers of funds to the Agency for Health Care Administration from non-Medicaid governmental entities. IGT funds are then used to draw down federal matching funds and payments are made to eligible providers. Providers are encouraged to contribute funds to ensure maximum payments from the LIP program. Net patient service revenue for the year ended June 30, 2018 includes net receipts of $9,549,189 related to the program.

Other: The College of Medicine has also entered into payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations (PPOs). The bases for payment to the College of Medicine, which are deposited into the FCPA's accounts under these agreements, vary. Many of the PPO arrangements are based on the third-party's fee schedule and certain of the HMOs are based on capitated arrangements.

Amounts earned under contractual arrangements with the Medicare and Medicaid programs are subject to review and final determination by administrative contractors, fiscal intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments which may result from such reviews. Activity with respect to these reviews has increased and is expected to continue to increase in the future. No additional reserves have been established with regard to possible increased reviews in the future as management is not able to estimate such amounts. In addition, participation in these programs subjects the FCPA to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the programs.

The FCPA's net patient accounts receivable consists primarily of amounts funded through third-party payer and private payments. Net patient accounts receivable are summarized as follows:

	As of June 30,	
	2018	***2017***
Patient accounts receivable based on established charges	$ 128,494,051	$ 121,384,751
Estimated contractual adjustments	(86,435,706)	(82,082,098)
Estimated allowance for uncollectible accounts	(5,204,667)	(5,338,863)
Patient accounts receivable, net	$ 36,853,678	$ 33,963,790

Net patient accounts receivable by major financial classification is as follows:

	As of June 30, 2018	2017
Insurance carriers under commercial and managed care plans	$ 17,884,810	$ 16,595,594
Medicare	6,167,208	5,488,229
Medicaid	3,716,841	3,053,529
Patients, including self-insured	518,576	476,570
Other	1,858,911	1,885,600
Value-Based Reimbursement	-	2,305,979
Medicaid Enhanced Payment Program	6,707,332	4,158,289
	$ 36,853,678	$ 33,963,790

The activity relating to the estimated allowance for uncollectible accounts for the years ended June 30, 2018 and 2017, is summarized as follows:

	2018	*2017*
Beginning balance	$ 5,338,863	$ 3,795,434
Provision	22,067,161	12,102,586
Charge-offs	(22,201,357)	(10,559,157)
Ending balance	$ 5,204,667	$ 5,338,863

FCPA's estimated allowance for uncollectible accounts remained consistent from the year ended June 30, 2017 to the year ended June 30, 2018. There were no significant changes in the methodology used to estimate the allowance for uncollectible accounts related to patient accounts receivable for the year ended June 30, 2018.

The FCPA provided uncompensated care with gross charges of approximately $108,847,000 and $93,090,000 in 2018 and 2017, respectively. Included in the uncompensated care amounts are approximately $23,394,000 and $18,210,000 in charges foregone identified as charity care, in accordance with the FCPA's charity care policy, in 2018 and 2017, respectively. The estimated direct and indirect cost of providing these services totaled approximately $6,670,000 and $5,188,000 in 2018 and 2017, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

NOTE E--CAPITAL ASSETS

A summary of property and equipment and schedule of activity is as follows:

	Balance at June 30, 2017	***Additions***	***Retirements***	***Transfers***	***Balance at June 30, 2018***
Capital assets:					
Building	$ 36,670,434	$ -	$ -	$ -	$ 36,670,434
Land	1,648,523	-	-	-	1,648,523
Leasehold improvements	3,969,024	15,999	-	-	3,985,023
Furniture, equipment and computers	20,962,747	575,633	14,763	377,280	21,900,897
Intangible asset	750,000	-	-	-	750,000
Total capital assets	64,000,728	591,632	14,763	377,280	64,954,877
Accumulated depreciation and amortization:					
Building	4,661,132	1,022,850	-	-	5,683,982
Leasehold improvements	2,492,202	219,424	-	-	2,711,626
Furniture, equipment and computers	13,443,284	2,462,900	10,897	-	15,895,287
Intangible asset	187,500	375,000	-	-	562,500
Total accumulated depreciation and amortization	20,784,118	4,080,174	10,897	-	24,853,395
	43,216,610	(3,488,542)	3,866	377,280	40,101,482
Capital assets in progress	4,895,438	25,936,914	-	(377,280)	30,455,072
Total capital assets, net	$ 48,112,048	$ 22,448,372	$ 3,866	$ -	$ 70,556,554

	Balance at June 30, 2016	***Additions***	***Retirements***	***Transfers***	***Balance at June 30, 2017***
Capital assets:					
Building	$ 36,670,434	$ -	$ -	$ -	$ 36,670,434
Land	1,648,523	-	-	-	1,648,523
Leasehold improvements	3,621,972	-	-	347,052	3,969,024
Furniture, equipment and computers	20,327,568	1,303,124	818,755	150,810	20,962,747
Intangible asset	-	750,000	-	-	750,000
Total capital assets	62,268,497	2,053,124	818,755	497,862	64,000,728

	Balance at June 30, 2016	*Additions*	*Retirements*	*Transfers*	*Balance at June 30, 2017*
Accumulated depreciation and amortization:					
Building	3,638,282	1,022,850	-	-	4,661,132
Leasehold improvements	2,187,372	304,830	-	-	2,492,202
Furniture, equipment and computers	11,515,934	2,569,943	642,593	-	13,443,284
Intangible asset	-	187,500	-	-	187,500
Total accumulated depreciation and amortization	17,341,588	4,085,123	642,593	-	20,784,118
	44,926,909	(2,031,999)	176,162	497,862	43,216,610
Capital assets in progress	497,862	4,895,438	-	(497,862)	4,895,438
Total capital assets, net	$ 45,424,771	$ 2,863,439	$ 176,162	$ -	$ 48,112,048

The FCPA implemented an electronic medical records system (EMR) in fiscal year 2013. During 2018 and 2017, the FCPA recognized approximately $688,000 and $1,379,000, respectively, in other operating revenue related to EMR expenditures reimbursed by the Medicare and Medicaid programs. Such amounts are subject to audit.

During 2017, the FCPA entered an agreement with a physician associated with the purchase of the physician's practice. The agreement indicates that within a specified distance of the practice location purchased, the physician shall not engage in a medical practice that is in any manner in competition with the FCPA. The agreement covers a 24-month period and, as such, is being reported as an intangible asset with a finite life. The intangible asset is being amortized over the 24-month period of the agreement.

Capital assets in progress as of June 30, 2018 relates to construction projects associated with clinic locations. As of June 30, 2018, estimated additional costs to complete these projects is approximately $43,652,000. Capitalized interest relating to construction in progress was approximately $349,000 for the year ended June 30, 2018.

During the years 1991 through 1999, the FCPA contributed a total of $33,494,258 toward the cost of buildings on the campus of the University. Because the faculty associated with the practice of medicine from which the FCPA receives professional fees is entitled to utilize these facilities in their endeavors, such costs were capitalized. Amortization expense relating to these facilities entitlements was approximately $413,000 and $426,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE F--LONG-TERM DEBT

Activity in long-term debt for the years ended June 30, 2018 and 2017 are as follows:

	Balance at June 30, 2017	***Issuances***	***Retirements***	***Balance at June 30, 2018***	***Amounts Due Within One Year***
2013 Notes Payable	$ 8,000,000	$ -	$ -	$ 8,000,000	$ -
Health Facilities Revenue Bonds, Series 2012	24,448,979	-	(1,306,122)	23,142,857	1,306,122
Health Facilities Revenue Bond, Series 2017	1,633,604	24,814,436	-	26,448,040	961,552
Total Long-Term Debt	$ 34,082,583	$ 24,814,436	$ (1,306,122)	$ 57,590,897	$ 2,267,674

	Balance at June 30, 2016	***Issuances***	***Retirements***	***Balance at June 30, 2017***	***Amounts Due Within One Year***
2013 Notes Payable	$ 8,000,000	$ -	$ -	$ 8,000,000	$ -
Health Facilities Revenue Bonds, Series 2012	25,755,101	-	(1,306,122)	24,448,979	1,306,122
Health Facilities Revenue Bond, Series 2017	-	1,633,604	-	1,633,604	-
Total Long-Term Debt	$ 33,755,101	$ 1,633,604	$ (1,306,122)	$ 34,082,583	$ 1,306,122

During 2013, the FCPA entered into two note agreements with an aggregate total of $8,000,000 (2013 Notes Payable) for the purpose of reimbursing Shands related to the construction of a clinic location. The two promissory notes are referenced as A Loan and B Loan. A Loan in the original amount of $6,050,000 matures in August 2022 and bears interest at a monthly variable rate. The variable rate, which is calculated as 110 basis points above the one month London Interbank Offered Rate (LIBOR), was 3.08% and 2.15% at June 30, 2018 and 2017, respectively. Monthly interest only payments began in September 2012 and run until August 2019 when monthly principal and interest payments based on an 18-year amortization begin and are required through maturity at which time all outstanding principal and interest is due. B Loan in the original amount of $1,950,000 matures in August 2052 and bears interest at the fixed rate of 2.25% until August 2019 when the rate resets to a rate necessary to achieve a constant yield to maturity. Monthly payments of interest began in September 2012 and are required until August 2019 at which time no additional monthly payments are required. All remaining outstanding principal and interest is due at maturity. A portion of the 2013 Notes Payable principal amount will be forgiven after seven years as part of a tax credit program.

During 2013, the Alachua County Health Facilities Authority (the Authority) issued $32,000,000 of tax-exempt Health Facilities Revenue Bonds, Series 2012 (the Series 2012 Bonds) and loaned the proceeds to the FCPA to finance a clinic location. Based on a Financing Agreement dated August 1, 2012 between the Authority, the FCPA and TD Bank, N.A. (the Bondholder), the FCPA is responsible for the repayment of the proceeds from the Series 2012 Bonds and is required to make debt payments directly to the Bondholder. The redemption of the Series 2012 Bonds is provided for by monthly principal payments of $108,844 which began in April 2013 and end March 2036. The Series 2012 Bonds require monthly interest payments based on a variable rate which is calculated as 75% of the Adjusted one-month LIBOR Rate plus 110 basis points. The variable rate was 2.31% and 1.61% at June 30, 2018 and 2017, respectively.

During 2017, the Authority issued a tax-exempt Health Facility Revenue Bond (the Series 2017 Bond) not to exceed $33,000,000 and is loaning the proceeds in multiple advances to the FCPA for acquisition, construction, and equipping of healthcare facilities. Based on a Financing Agreement dated May 1, 2017 between the Authority, the FCPA and TD Bank, N.A. (the Bondholder), the FCPA is responsible for the repayment of the proceeds from the Series 2017 Bond and is required to make debt payments directly to the Bondholder. The FCPA obtains proceeds of the Series 2017 Bond upon completion of an advance request. As of June 30, 2018, $26,448,040 had been advanced to the FCPA. Management anticipates that the entire balance will be advanced by fiscal year 2019. The Series 2017 Bond requires a monthly interest payment based on a variable rate of 69.75% of the Adjusted one-month LIBOR Rate plus 89 basis points. The variable rate was 2.44% and 1.35% at June 30, 2018 and 2017, respectively. The Series 2017 Bond matures in May 2043, with annual principal payments beginning May 1, 2019.

There are numerous restrictive covenants contained in the agreements related to the Series 2017 Bond, the 2013 Notes Payable and Series 2012 Bonds. The Series 2017 Bond, the 2013 Notes Payable and the Series 2012 Bonds have the same restrictive covenants and all were financed by the Bondholder. Among other things, the FCPA is restricted as to additional borrowings or liens on property, mergers and acquisitions and sale of assets. In addition, FCPA is required to maintain liquid assets (cash, cash equivalents and short-term marketable securities) with a fair value of at least $10,000,000 and maintain a debt service coverage ratio of 1.25. The FCPA was in compliance with these restrictive financial covenants at June 30, 2018 and 2017. The Series 2017 Bond, the 2013 Notes Payable and the Series 2012 Bonds are secured by Security Agreements between the FCPA and the Bondholder which grant the Bondholder an interest in all assets, properties and rights of debtor of every kind, wherever located, whether now owned or hereafter acquired, with certain exemptions.

The FCPA has entered into a ground lease with Shands related to the real property on which the clinic, financed by the Series 2012 Bonds, is located. Future lease payments related to this agreement are included in the amounts documented in Note H.

The estimated future debt service requirements, based upon the interest rates in effect at June 2018, are as follows:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2019	$ 2,267,674	$ 1,402,115	$ 3,669,789
2020	2,292,063	1,316,217	3,608,280
2021	2,317,071	1,243,437	3,560,508
2022	2,958,918	1,177,254	4,136,172
2023	2,369,006	982,475	3,351,481
2024-2028	17,697,163	3,911,498	21,608,661
2029-2033	13,028,241	2,398,500	15,426,741
2034-2038	10,915,573	862,486	11,778,059
2039-2043	1,795,188	42,056	1,837,244
2044-2048	-	-	-
2049-2053	1,950,000	1,469,082	3,419,082
	$ 57,590,897	$ 14,805,120	$ 72,396,017

NOTE G--CAPITAL LEASE OBLIGATIONS

A schedule of changes in the FCPA's capital lease obligations is as follows:

	Balance at June 30, 2017	*Additions*	*Reductions*	*Balance at June 30, 2018*	*Amount Due Within One Year*
Capital lease obligations	$ 521,915	$ -	$ 91,590	$ 430,325	$ 90,758

	Balance at June 30, 2016	*Additions*	*Reductions*	*Balance at June 30, 2017*	*Amount Due Within One Year*
Capital lease obligations	$ 149,760	$ 448,639	$ 76,484	$ 521,915	$ 83,974

The FCPA leases equipment under capital lease agreements which expire at various dates. Future minimum lease payments under capital leases are as follows:

Year Ending June 30,		
2019	$	147,829
2020		161,268
2021		161,268
2022		94,073
Total minimum lease payments		564,438
Less amount representing interest (rates range from 14.55% to 16.81%)		(134,113)
Present value of net future minimum lease payments		430,325
Less current portion		(90,758)
Present value of future minimum lease payments - long-term	$	339,567

NOTE H--OPERATING LEASES

The FCPA leases equipment, office space and land under operating lease agreements. Future minimum rental payments required under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2018, are as follows:

Year Ending June 30,		
2019	$	4,367,498
2020		3,415,771
2021		2,989,682
2022		2,791,563
2023		2,612,179
2024-2028		11,990,207
2029-2033		9,913,780
2034-2038		10,406,886
2039-2043		3,087,994
2044-2048		3,409,394
2049-2052		2,981,275
Total minimum payments required	$	57,966,229

The FCPA recognized approximately $4,671,000 and $4,666,000 in lease expense for the years ended June 30, 2018 and 2017, respectively.

NOTE I--DERIVATIVE FINANCIAL INSTRUMENTS

With the issuance of the Series 2017 Bond, the Series 2012 Bonds and the 2013 Notes Payable discussed in Note F, the FCPA entered into interest rate swap agreements. In an effort to manage exposure to interest rate risks associated with variable rate debt instruments, the FCPA became a party to three distinct interest rate swap agreements with TD Bank, N.A.

With respect to the Series 2012 Bonds, the FCPA executed a swap where the FCPA receives a variable rate equal to 75% of the one-month LIBOR-BBA rate plus 82.5 basis points and pays a fixed rate of 2.125% on the notional amount of $23,142,857 and $24,448,979 at June 30, 2018 and 2017, respectively. Unless terminated at an earlier date, this agreement terminates on August 31, 2022.

With respect to the 2013 Notes Payable - A Loan, the FCPA executed a swap agreement whereby the FCPA receives a variable rate equal to the one-month LIBOR-BBA rate plus 110 basis points and pays a fixed rate equal to 2.98% on the notional amount of $6,050,000 at June 30, 2018 and 2017. Unless terminated at an earlier date, this agreement terminates on August 1, 2022.

With respect to the Series 2017 Bond, the FCPA executed a swap agreement where the FCPA receives a variable rate equal to 69.75% of the one-month LIBOR-BBA rate, plus 62.0775 basis points, and pays a fixed rate of 2.175% on the notional amount of $26,448,040 and $1,633,604 at June 30, 2018 and 2017, respectively. This agreement terminates May 1, 2027 unless terminated at an earlier date.

Although these swap instruments are intended to manage exposure to interest rate risks associated with the debt instruments referred to above, none of these swap agreements have been determined to be an effective hedge. Accordingly, the interest rate swaps are reflected in the accompanying statements of net position at their aggregate fair value (an asset of $1,746,853 and $38,682 at June 30, 2018 and 2017, respectively) and the changes in the value of the swaps are reflected as a component of nonoperating revenues in the statements of revenue, expenses and changes in net position for the years ended June 30, 2018 and 2017.

Management has considered the effects of any credit value adjustment, and while management believes the estimated fair value of the interest rate swap agreements is reasonable, the estimate is subject to change in the near term.

NOTE J--RELATED-PARTY TRANSACTIONS

Shands and the University, for the benefit of the College of Medicine, entered into an Academic and Quality Support Agreement (AQSA) effective July 1, 2004. The AQSA was amended and restated effective July 1, 2011 through the termination date of June 30, 2014. An Academic Support Agreement (ASA) replaced the AQSA agreement effective July 1, 2014 through June 30, 2015, and at termination, it was replaced with an ASA agreement effective July 1, 2015 through June 30, 2016. Shands and the University entered into a new ASA agreement effective July 1, 2016 with a termination date of June 30, 2021.

The purpose of the ASA is to clarify and expand the support provided to the College of Medicine from Shands. The funds provided to the College of Medicine are to be used to support the missions of teaching, indigent care, research and community service. Shands provided support funding in the amounts of approximately $92,167,000 and $96,241,000, for the years ended June 30, 2018 and 2017, respectively, to the FCPA which collects the funds on behalf of the College of Medicine. These amounts are recognized in other operating revenue.

During fiscal years 2018 and 2017, the FCPA received approximately $88,298,000 and $81,991,000, respectively, from Shands relating to the reimbursement of expenses and contractual services provided by the College of Medicine on behalf of Shands. The FCPA records certain reimbursements from Shands for contractual services as revenue. Until these amounts are transferred to the University of Florida, they are reported as unearned revenue. There was $15,149 in unearned revenue as of June 30, 2018. There was no unearned revenue as of June 30, 2017.

Also, during fiscal years 2018 and 2017, the FCPA incurred approximately $112,914,000 and $110,287,000, respectively, per year in contractual services expense under various contracts with Shands. Accounts payable and accrued expenses as of June 30, 2018 and 2017, includes a payable to Shands for certain benefit expenses relating to Shands employees associated with these contractual services.

Other amounts included in due from affiliates at June 30, 2018 and 2017 are due primarily from Shands for numerous different departmental professional services and support furnished under agreements with Shands.

NOTE K--COMMITMENTS AND CONTINGENCIES

Professional Liability: The University of Florida Board of Trustees, acting as the College of Medicine, obtains general and professional liability protection from the University of Florida J. Hillis Miller Health Science Center Self-Insurance Program (Self-Insurance Program). The Self-Insurance Program was established by the Florida Board of Governors pursuant to Section 1004.24, Florida Statutes.

The Self-Insurance Program protects the University of Florida Board of Trustees for losses which are subject to Section 768.28, Florida Statutes, including legislative claim bills, that in combination with the waiver of immunity limits described in Section 768.28, Florida Statutes, do not exceed $1,000,000 per claim and up to $2,000,000 per incident for negotiated settlements.

Pursuant to Board of Governors Regulation 6C-10.001(2), the University of Florida Self-Insurance Program Council has created the University of Florida Healthcare Education Insurance Company (HEIC), a captive insurance company that is wholly owned by the State Board of

Governors and domiciled in the State of Vermont. HEIC is managed by a Board of Directors created by the State Board of Governors. HEIC provides coverage for claims that are in excess of the protection afforded by the Self-Insurance Program at limits of $4,000,000 and $3,000,000 for negotiated settlements. HEIC provides additional limits of liability coverage of $100,000,000 per claim and in the aggregate, which is in excess of the coverage described above.

In the event the personal immunity of College of Medicine faculty physicians or other professional employees are not subject to the personal immunity described in Section 768.28, Florida Statutes, for example, on assignment outside the State of Florida, the Self-Insurance Program provides the faculty physicians and other professional employees with personal liability protection, including professional liability, in the amount of $2,000,000 per claim and with excess coverage of $103,000,000 underwritten by HEIC.

The FCPA is provided protection by the Self-Insurance Program and HEIC. No amounts have been accrued for incurred but not reported claims as the FCPA is not able to estimate such amounts.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act* and *Health Care and Educational Reconciliation Act*. The legislation, among other matters is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE L--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying value of its financial instruments, including cash and cash equivalents, investments, patient accounts and other receivables, accounts payable and accrued expenses, and estimated liability for refunds are at fair value or approximate fair value due to the nature and short-term maturities of these instruments. Management also estimates that the carrying value of its capital lease obligations and long-term debt approximate fair value.

NOTE M--FAIR VALUE MEASUREMENT

GASB Statement No. 72 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As such, GASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB describes fair value as an exit price where measurement assumes a transaction takes place in an entity's principal market, or most advantageous market in the absence of a principal market, and the market participants are acting in their economic best interests. GASB Statement No. 72 requires an entity to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques should be applied consistently and maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Valuation Hierarchy: GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels which are defined as follows:

- *Level 1:* Inputs to the valuation technique are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- *Level 2:* Inputs to the valuation technique, other than quoted prices within *Level 1*, that are observable for an asset or liability, either directly or indirectly.

- *Level 3:* Inputs to the valuation technique are unobservable.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The FCPA's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents assets reported at fair value as of June 30, 2018 and 2017, and their respective classification under the GASB Statement No. 72 valuation hierarchy:

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2018:

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Investments in U.S. Treasury Bonds	$ 2,125,000	$ 2,125,000	$ -	$ -
Investments in Federal Agency Securities and Commercial Bonds and Notes	3,015,940	-	3,015,940	-
Investments in Money Market Fund	10,798,024	-	10,798,024	-
Investments in Stock Mutual Fund	6,315,448	-	6,315,448	-
Investments in Bond Mutual Fund	3,771,907	-	3,771,907	-
Interest rate swap agreements, net	1,746,853	-	-	1,746,853
	$ 27,773,172	$ 2,125,000	$ 23,901,319	$ 1,746,853

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2017:

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Investments in U.S. Treasury Bonds	$ 2,280,240	$ 2,280,240	$ -	$ -
Investments in Federal Agency Securities and Commercial Bonds and Notes	4,046,320	-	4,046,320	-
Investments in Money Market Fund	9,400,482	-	9,400,482	-
Investments in Stock Mutual Fund	5,711,858	-	5,711,858	-
Investments in Bond Mutual Fund	3,763,471	-	3,763,471	-
Interest rate swap agreements, net	38,682	-	-	38,682
	$ 25,241,053	$ 2,280,240	$ 22,922,131	$ 38,682

A certain portion of the inputs used to value the FCPA's interest rate swap agreements are unobservable inputs. As a result, FCPA has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

NOTE N--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2018 financial statements.

Other Financial Information

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Revenue, Expenditures and Changes in Net Position of the Miscellaneous Gifts and Grants Fund - Unaudited

	Year Ended June 30, 2018	2017
REVENUE	$ **50,079**	$ 3,536
EXPENDITURES:		
Salaries and benefits	**404,709,101**	383,518,237
Contractual services	**10,963,923**	14,413,479
Insurance	**15,437**	15,165
Electronic data processing charges	**4,686,627**	5,872,798
Operating supplies	**6,109,425**	6,966,145
Occupancy expenses	**527,090**	440,891
Printing and reproduction	**579,627**	473,339
Dues and subscriptions	**2,136,316**	1,879,883
Food and entertainment	**1,786,854**	1,920,372
Repairs and maintenance	**1,636,450**	2,035,898
Travel	**4,346,055**	4,971,114
Advertising	**772,570**	890,466
Telephone, freight and postage	**1,685,053**	1,756,501
University overhead	**10,632,023**	8,824,642
Other	**3,718,116**	3,868,634
Total expenditures	**454,304,667**	437,847,564
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	**(454,254,588)**	(437,844,028)
TRANSFERS:		
From Florida Clinical Practice Association, Inc.	**450,516,512**	437,418,322
Total transfers	**450,516,512**	437,418,322
DEFICIT OF REVENUE AND TRANSFERS OVER EXPENDITURES	**(3,738,076)**	(425,706)
NET DEFICIENCY, BEGINNING OF YEAR	**(9,076,783)**	(8,651,077)
NET DEFICIENCY, END OF YEAR	$ **(12,814,859)**	$ (9,076,783)

PYA
Certified Public Accountants

PYA, P.C.
3000 Bayport Drive, Suite 580
Tampa, FL 33607
p: (727) 442-7110 | f: (865) 673-0173
www.pyapc.com

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Florida Clinical Practice Association, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Florida Clinical Practice Association, Inc. (the FCPA) (a component unit of the University of Florida), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the FCPA's basic financial statements, and have issued our report thereon dated September 21, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the FCPA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FCPA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PYA, P.C.

Tampa, Florida
September 21, 2018