



Financial Statements (and Other Financial Information)

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

Years Ended June 30, 2019 and 2018

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Financial Statements (and Other Financial Information)

Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 3 through 12 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 Fund 171 – Transfers from Component Units Fund (HSCFCPA) 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 30, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

DYA, P.C.

Tampa, Florida
September 30, 2019

Management's Discussion and Analysis

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

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, 2019. 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 \$593 thousand or .4% during fiscal year 2019. Operating revenue was \$692.1 million and increased \$47.5 million or 7.4% over the prior year. Total operating expense of \$189.7 million increased \$15.3 million or 8.8% when compared to the prior year.

Professional fees from direct patient care of \$444 million increased \$38.8 million or 9.6% during fiscal year 2019 from the prior year. The increase in direct patient care revenue is primarily the result of an increase in volume that resulted from a 6% increase in patient visits and a 6.3% increase in work relative value units (WRVUs) in the current fiscal year.

Professional fees from indirect patient care and other revenue of \$248.1 million increased \$8.6 million or 3.6% during fiscal year 2019 compared to the prior year. The increase was due to a new contract this year, three contracts that were new last fiscal year and did not have a full year of revenue last year but did have a full year of revenue this year and two longstanding contracts that had a combined increase in revenue this year of \$3.6 million. These increases were reduced due to a June 30, 2018 termination of a contract that had a full year of revenue last fiscal year and zero this year.

Investment income of \$2.6 million increased \$1.8 million or 206.4% during fiscal year 2019 from the prior year. Investment income was up due to a higher rate of interest earned on our cash balances, higher daily average cash balances this year compared to the prior year and a \$733,000 increase in the fair market value of the FCPA's investment portfolio.

Interest expense for long-term debt and capital lease obligations in the 2019 fiscal year was \$1.8 million. This was a \$948 thousand increase from the prior year. The increase in interest expense was the result of a full year of interest on debt used to build, furnish and equip our second medical office building at Springhill (Springhill II) and on debt acquired in March 2019 for the ophthalmology and otolaryngology clinic. Springhill II opened in August 2018.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

Transfers increased \$40.6 million or 8.9% to \$499.1 million during the 2019 fiscal year. Current year salaries and benefits (excluding housestaff stipends) funded by the FCPA increased by \$30.3 million. Salaries increased over the prior year by \$26.7 million or 9.4% while benefits increased \$3.6 million or 6.1%. The increase in salaries was primarily due to the cost of new hires in some clinical departments and funding a 4% staff performance bonus pool. Funding of non-salary expenses increased by \$3.1 million or 7.9%. The increase in non-salary funding was due to expenses for contractual services up \$1.6 million, operating supplies up \$1.5 million, travel up \$.7 million and food and entertainment up \$.4 million. These increases were reduced due to current year capital expense down \$.7 million and data processing expense down \$.4 million. The change in available cash balance in UF Fund 171 was \$3.4 million higher than the prior year. The additional transfer to Fund 171 was to restore the balance to an adequate level from the prior year. 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 up approximately \$2 million in fiscal year 2019. The increase was due to a stipend rate increase coupled with a UF housestaff fringe pool rate increase. Additionally, the College of Medicine invested approximately \$9.5 million, from FCPA funds, in education and research. This investment was an increase of \$1.6 million compared to the prior fiscal year.

The overall financial health of the FCPA remains strong. The FCPA's net position increased by \$593 thousand or .4% to \$160.1 million. Current assets of \$160.2 million are more than sufficient to cover current liabilities of only \$26.4 million. The FCPA has \$89.5 million in long-term debt and capital lease obligations less current portion at June 30, 2019.

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.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

FINANCIAL ANALYSIS OF THE ASSOCIATION

Table 1 - Condensed Statements of Assets

	2019	2018	Increase (Decrease)	Percent Change	Percentage of 2019 Total
ASSETS					
Cash and cash equivalents	\$ 75,298,501	\$ 73,516,886	\$ 1,781,615	2.42%	27.12%
Patient accounts receivable, net	39,771,642	36,853,678	2,917,964	7.92%	14.32%
Other current assets (excluding short term investments)	19,261,623	20,273,522	(1,011,899)	-4.99%	6.94%
Investments - long term and short term	34,672,027	34,161,789	510,238	1.49%	12.49%
Property and equipment, net	83,901,748	70,556,554	13,345,194	18.91%	30.22%
Facilities entitlements, net	1,657,309	2,059,656	(402,347)	-19.53%	0.59%
Assets Limited as to Use	23,057,968	-	23,057,968	100.00%	8.30%
Other assets	38,049	1,784,277	(1,746,228)	-97.87%	0.01%
TOTAL ASSETS	\$ 277,658,867	\$ 239,206,362	\$ 38,452,505	16.08%	100.00%

At June 30, 2019, total assets for the FCPA were \$277.7 million, an increase of \$38.5 million or 16.1% from the prior year.

The FCPA's most significant asset was property and equipment, net. Property and equipment, net was \$83.9 million or 30.2% of total assets at June 30, 2019. Property and equipment, net increased by \$13.3 million or 18.9% from the prior year. The increase in property and equipment, net was primarily the result of completing construction of Springhill II and construction of the ophthalmology and otolaryngology clinic. Springhill II was placed in service in August 2018. The costs of the ophthalmology and otolaryngology clinic are included in capital assets in progress at June 30, 2019.

Table 2 - Capital Assets, Net

	2019	2018	Increase (Decrease)	Percent Change	Percentage of 2019 Total
Building	\$ 62,742,968	\$ 30,986,452	\$ 31,756,516	102.49%	73.33%
Land	1,648,523	1,648,523	-	0.00%	1.93%
Leasehold improvements	1,126,519	1,273,397	(146,878)	-11.53%	1.32%
Furniture, fixtures and equipment	5,021,479	6,005,610	(984,131)	-16.39%	5.87%
Intangible asset	-	187,500	(187,500)	-100.00%	0.00%
Capital assets in progress	13,362,259	30,455,072	(17,092,813)	-56.12%	15.61%
Facilities entitlements	1,657,309	2,059,656	(402,347)	-19.53%	1.94%
TOTAL CAPITAL ASSETS, NET	\$ 85,559,057	\$ 72,616,210	\$ 12,942,847	17.82%	100.00%

At June 30, 2019, the FCPA had \$85.6 million invested in a broad range of capital assets, net of accumulated depreciation and amortization of \$61.1 million, including facilities entitlements. The amount represents a net increase (including additions and deductions) of approximately \$12.9 million or 17.8% compared to last year. The increase was primarily the result of current year

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

construction costs to complete Springhill II and construction in progress related to the ophthalmology and otolaryngology clinic.

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 at Springhill. In the current fiscal year, the FCPA placed Springhill II in service.

For fiscal year 2020, the FCPA has approximately \$6.1 million budgeted for capital expenditures that will be used to renovate and equip clinics and fund various additional capital projects and \$22.2 million to complete construction of the ophthalmology and otolaryngology clinic. The funds to complete construction of the ophthalmology and otolaryngology clinic were secured with financing in March 2019. At June 30, 2019, the unused proceeds from the financing are being held in an escrow account and are available as needed to equip and construct the new clinic.

The FCPA's second most significant asset was cash and cash equivalents. Cash and cash equivalents were \$75.3 million or 27.1% of total assets at June 30, 2019. Cash and cash equivalents increased by \$1.8 million or 2.4% from the prior year.

The FCPA's third most significant asset was net patient accounts receivable. Net patient accounts receivable were \$39.8 million or 14.3% of total assets at June 30, 2019. Net patient accounts receivable increased by \$2.9 million or 7.9% 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

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
Beginning accounts receivable	\$ 121,786,719	\$ 114,920,483	\$ 6,866,236	5.97%
Net charges	474,477,703	438,927,491	35,550,212	8.10%
Payments	(450,499,936)	(413,303,123)	(37,196,813)	9.00%
Bad debt write off	(40,728,276)	(45,595,432)	4,867,156	-10.67%
Refunds	23,643,462	26,837,300	(3,193,838)	-11.90%
Accounts receivable	128,679,672	121,786,719	6,892,953	5.66%
Reserve for contractual adjustments	(91,803,744)	(86,435,706)	(5,368,038)	6.21%
Reserve for uncollectible accounts	(4,817,125)	(5,204,667)	387,542	-7.45%
Sub-total accounts receivable, net	32,058,803	30,146,346	1,912,457	6.34%
Medicaid Enhanced Payment Program	7,712,839	6,707,332	1,005,507	14.99%
Total accounts receivable, net	<u>\$ 39,771,642</u>	<u>\$ 36,853,678</u>	<u>\$ 2,917,964</u>	<u>7.92%</u>

The FCPA's fourth most significant asset was investments - long term and short term. Investments - long term and short term were \$34.7 million or 12.5% of total assets at June 30, 2019. Investments - long term and short term increased by \$510 thousand from the prior year. The increase is due to the FCPA's reinvestment of \$1.2 million of interest and dividends earned during

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

the year and a \$733 thousand fair market value increase of its investment portfolio. The increases were reduced by receipt of a capital distribution of \$1.4 million on our investment in UF Health South Central, LLC partnership (the LLC). The LLC is accounted for under the equity method. The equity method requires any receipt of capital distributions to be recorded as a reduction in the value of the corresponding investment.

Table 4 - Condensed Statements of Liabilities

	2019	2018	Increase (Decrease)	Percent Change	Percentage of 2019 Total
LIABILITIES					
Accounts payable and accrued expenses	\$ 21,852,557	\$ 21,694,330	\$ 158,227	0.73%	18.58%
Long-term debt and capital lease obligations, including current portions	92,205,826	58,021,222	34,184,604	58.92%	78.41%
Fair Value of Interest Rate Swap	1,685,148	-	1,685,148	100.00%	1.43%
Unearned revenue	1,847,009	15,149	1,831,860	12092.28%	1.57%
TOTAL LIABILITIES	\$ 117,590,540	\$ 79,730,701	\$ 37,859,839	47.48%	100.00%

At June 30, 2019, total liabilities for the FCPA were \$117.6 million. Total liabilities increased \$37.9 million or 47.5% when compared to the prior year.

The FCPA's most significant liability is its long-term debt and capital lease obligations of \$92.2 million or 78.4% of total liabilities at June 30, 2019. Long-term debt and capital lease obligations were \$58 million in the prior year. The FCPA had a debt to total assets ratio of 33.2% in fiscal year 2019 and 24.3% in fiscal year 2018. Long-term debt and capital lease obligations increased \$34.2 million. The increase is due to advance draws on the 2017 bond debt used to complete construction of the FCPA's Springhill II and acquiring the 2019 bond debt to construct the ophthalmology and otolaryngology clinic.

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 \$21.9 million or 18.6% of total liabilities at June 30, 2019. Accounts payable and accrued expenses increased by \$158 thousand or .7%.

Net Position: Net position totaled \$160.1 million, which represents 23.2% of total operating expenditures and transfers to the University of Florida, College of Medicine and others during 2019. Net position increased by \$593 thousand or .4% during fiscal year 2019.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

Table 5 - Condensed Statements of Revenue and Expenses

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
Management's Response to Finding 1 and Recommendation				
OPERATING ACTIVITIES:				
Professional fees from direct patient care	\$ 443,996,286	\$ 405,156,202	\$ 38,840,084	9.59%
Professional fees from indirect patient care	152,359,509	143,878,557	8,480,952	5.89%
Other revenue	95,702,332	95,569,997	132,335	0.14%
TOTAL OPERATING REVENUE	692,058,127	644,604,756	47,453,371	7.36%
OPERATING EXPENSES:				
Contractual services	149,844,813	137,707,285	12,137,528	8.81%
Other operating expenses	39,900,990	36,764,025	3,136,965	8.53%
TOTAL OPERATING EXPENSES	189,745,803	174,471,310	15,274,493	8.75%
OPERATING INCOME	502,312,324	470,133,446	32,178,878	6.84%
NONOPERATING REVENUE (EXPENSES):				
Investment income	2,612,156	852,444	1,759,712	206.43%
Interest expense, net	(1,769,972)	(821,962)	(948,010)	115.34%
Change in mark-to-market of interest rate swaps	(3,432,001)	1,708,171	(5,140,172)	-300.92%
Loss on disposal of property and equipment	(85,179)	(3,866)	(81,313)	2103.29%
NET NONOPERATING REVENUE	(2,674,996)	1,734,787	(4,409,783)	-254.20%
INCREASE IN NET POSITION BEFORE TRANSFERS				
	499,637,328	471,868,233	27,769,095	5.88%
TOTAL TRANSFERS	(499,044,662)	(458,473,716)	(40,570,946)	8.85%
INCREASE IN NET POSITION	\$ 592,666	\$ 13,394,517	\$ (12,801,851)	95.58%

Current year revenues were more than operating expenses and transfers resulting in an increase in net position for the current year of \$593 thousand.

Operating Revenue: Total operating revenue for the current year was \$692.1 million. Professional fees from direct patient care are the most significant source of revenue representing \$444 million or 64.2% of the total operating revenue.

Table 6 - Professional Fees from Direct Patient Care

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
Charges	\$ 1,472,687,701	\$ 1,370,315,328	\$ 102,372,373	7.47%
Contractual adjustments	(1,011,362,102)	(943,091,965)	(68,270,137)	7.24%
Provision for bad debt	(17,329,313)	(22,067,161)	4,737,848	-21.47%
Net direct charges from patient care	\$ 443,996,286	\$ 405,156,202	\$ 38,840,084	9.59%

Professional fees from direct patient care increased \$38.8 million or 9.6% during the 2019 fiscal year when compared to the prior year. Total charges increased \$102.4 million or 7.5%. The increased charges were primarily the result of increased volume that was evidenced by an increase in WRVUs of 6.3% and patient visits of 6%.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

Contractual adjustments increased \$68.3 million or 7.2%. Contractual adjustments in absolute dollars increased as a result of an increase in charges. Contractual adjustments as a percentage of charges decreased .1 percent to 68.7% compared to the prior year.

Provision for bad debt decreased \$4.7 million or 21.5%. The decrease 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. The current fiscal year provision for bad debt decreased because the current year is compared to the prior fiscal year that included the significant increase. The current year provision decrease was mitigated by an increase in the provision that was a result of an increase in charges during fiscal year 2019.

Professional fees from indirect patient care of \$152.4 million increased \$8.5 million or 5.9% during the 2019 fiscal year. The increase was due to a new contract this year, three contracts that were new last fiscal year and did not have a full year of revenue last year but did have a full year of revenue this year and two longstanding contracts that had a combined increase in revenue this year of \$3.6 million. These increases were reduced due to a June 30, 2018 termination of a contract that had a full year of revenue last fiscal year and zero this year.

Other revenue increased \$132 thousand or .1% during the 2019 fiscal year.

Operating Expenses: Total operating expenses for the current year were \$189.7 million. Operating expenses increased \$15.3 million or 8.8% when compared to the prior year. The contractual services expense of \$149.8 million (79% of total operating expenses) is the most significant operating expense. This expense increased \$12.1 million or 8.8% from the prior year. Other operating expenses increased \$3.1 million or 8.5% 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 \$72 million. Contractual services provided by Shands increased \$5.8 million or 8.8% over the prior fiscal year. The increase is attributed to additional costs associated with raises for leased employees and primary care growth that was a result of existing clinics moving to the 72,000 square-foot Springhill II.

Other operating expenses were \$39.9 million and increased \$3.1 million or 8.5% compared to the prior year. The increase in the other operating expenses was in part due to an increase in costs associated with stocking the clinics at Springhill II and an increase in pharmacy supplies at the College of Medicine's Hemophilia Treatment Center Program. Other operating expenses as a

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

percentage of operating revenue were 5.8% in the current fiscal year and 5.7% in the prior fiscal year.

Nonoperating Revenue (Expenses): Total nonoperating revenue (net of expenses) for the current year was a net operating loss of \$2.7 million compared to operating revenue of \$1.7 million in the prior fiscal year. This resulted in a negative variance of \$4.4 million.

Investment income increased \$1.8 million from the prior year. Investment income was up due to increased interest and dividend earnings and an increase in the fair market value of our investment portfolio.

A decrease in fair value of the mark-to-market interest rate swaps of \$5.1 million was the primary factor for the negative variance and also contributed to the non-operating loss. The decrease in fair value of the mark-to-market interest rate swaps was a result of the current market conditions. See Note I to the financial statements for additional information.

Interest expense for long-term debt and capital lease obligations in the 2019 fiscal year was \$1.8 million. This was a \$948 thousand increase from the prior year. The increase in interest expense was the result of a full year of interest on debt used to build, furnish and equip Springhill II and on debt acquired in March 2019 for the ophthalmology and otolaryngology clinic. Springhill II opened in August 2018.

Transfers: Transfers increased \$40.6 million or 8.9% to \$499.1 million during the 2019 fiscal year. Current year salaries and benefits (excluding housestaff stipends) funded by the FCPA increased by \$30.3 million. Salaries increased over the prior year by \$26.7 million or 9.4% while benefits increased \$3.6 million or 6.1%. The increase in salaries was primarily due to the cost of new hires in some clinical departments and funding a 4% staff performance bonus pool. Funding of non-salary expenses increased by \$3.1 million or 7.9%. The increase in non-salary funding was due to expenses for contractual services up \$1.6 million, operating supplies up \$1.5 million, travel up \$.7 million and food and entertainment up \$.4 million. These increases were reduced due to current year capital expense down \$.7 million and data processing expense down \$.4 million. The change in available cash balance in UF Fund 171 was \$3.4 million higher than the prior year. The additional transfer to Fund 171 was to restore the balance to an adequate level from the prior year. 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 up approximately \$2 million in fiscal year 2019. The increase was due to a stipend rate increase coupled with a UF housestaff fringe pool rate increase. Additionally, the College of Medicine invested approximately \$9.5 million, from FCPA funds, in education and research. This investment was an increase of \$1.6 million compared to the prior fiscal year.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

Table 7 - Operational Key Indicators

	<u>2019</u>	<u>2018</u>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
WRVUs	4,623,080	4,350,507	272,573	6.27%
Patient visits	1,053,219	993,902	59,317	5.97%

Total WRVUs increased 6.3% from the prior year. Patient visits increased 6%.

Table 8 - Condensed Statements of Cash Flows

	<u>2019</u>	<u>2018</u>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
CASH PROVIDED BY (USED IN):				
Operating activities	\$ 505,340,062	\$ 474,643,729	\$ 30,696,333	6.47%
Noncapital financing activities	(499,044,662)	(458,473,716)	(40,570,946)	8.85%
Capital and related financing activities	16,495,135	(4,960,794)	21,455,929	-432.51%
Investing activities	(21,008,920)	(221,075)	(20,787,845)	9403.07%
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,781,615	10,988,144	(9,206,529)	-83.79%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	73,516,886	62,528,742	10,988,144	17.57%
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 75,298,501</u>	<u>\$ 73,516,886</u>	<u>\$ 1,781,615</u>	<u>2.42%</u>

Total cash and cash equivalents increased by \$1.8 million in the current year.

Funds From Operating Activities: Cash provided by operating activities of \$505.3 million was \$30.7 million or 6.5% 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 \$593.4 million, an increase of \$47.5 million or 8.7% from the prior year. The largest category of payments from operating funds was payments to contractors of \$149.8 million, which increased \$12.1 million or 8.8% from the prior year.

Funds From Noncapital Financing Activities: Cash used in noncapital financing activities of \$499 million was \$40.6 million or 8.9% 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 \$21 million. In the prior year, cash used in investing activities was \$221 thousand. The increase of cash used of \$20.8 million from the prior year is primarily due to the recognition of an escrow account in investing activities for cash flow presentation that has unused 2019 bond proceeds. The escrow account balance at June 30, 2019 was \$23.1 million. These proceeds are held in the escrow account until needed. This increase was reduced by \$1.4 million that the FCPA received as a capital

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Management's Discussion and Analysis - Continued

distribution from our investment in the LLC. The LLC is the landlord of the Ocala clinical operations.

Funds From Capital and Related Financing Activities: Cash provided by capital and related financing activities was \$16.5 million for fiscal 2019 compared to \$5 million used in financing activities for fiscal 2018. The largest use of funds for capital and related financing activities was for the purchase of property and equipment of \$16 million. The FCPA had debt cash proceeds of \$36.6 million. \$6.6 million in advances for completion of Springhill II and \$30 million for the ophthalmology and otolaryngology clinic.

ECONOMIC FACTORS

The College of Medicine received approximately 6.4% 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 fiscal year 2018 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 \$14,339,708 and \$9,549,189 in 2019 and 2018 respectively from the Program. The revenue from the Program represents 2.1% of the FCPA's total operating revenue for fiscal year 2019. The program is projected to continue throughout fiscal year 2020.

In fiscal year 2019, the FCPA received 27.3% 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.

Financial Statements

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Net Position

	<i>June 30,</i>	
	<i>2019</i>	<i>2018</i>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 75,298,501	\$ 73,516,886
Investments	25,840,740	20,885,379
Patient accounts receivable, net of estimated contractual adjustments and uncollectible accounts of \$96,620,869 in 2019 and \$91,640,373 in 2018	39,771,642	36,853,678
Interest receivable	151,922	99,052
Due from affiliates	10,800,639	12,972,747
Other receivables	8,304,265	7,197,323
Other assets	4,797	4,400
TOTAL CURRENT ASSETS	160,172,506	151,529,465
INVESTMENTS:		
Long-term investments	1,975,750	5,140,940
Investment in UF Health South Central, LLC	6,855,537	8,135,470
TOTAL LONG-TERM INVESTMENTS	8,831,287	13,276,410
CAPITAL ASSETS:		
Property and equipment, net	83,901,748	70,556,554
Facilities entitlements, net	1,657,309	2,059,656
TOTAL CAPITAL ASSETS, NET OF DEPRECIATION AND AMORTIZATION	85,559,057	72,616,210
ASSETS LIMITED AS TO USE	23,057,968	-
OTHER ASSETS:		
Estimated fair value of interest rate swaps	-	1,746,853
Deposits	38,049	37,424
TOTAL OTHER ASSETS	38,049	1,784,277
TOTAL ASSETS	\$ 277,658,867	\$ 239,206,362

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Net Position - Continued

	<i>June 30,</i>	
	<i>2019</i>	<i>2018</i>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 21,852,557	\$ 21,694,330
Current portion of long-term debt and capital lease obligations	2,678,490	2,358,432
Unearned revenue	1,847,009	15,149
CURRENT LIABILITIES	26,378,056	24,067,911
OTHER LIABILITIES:		
Long-term debt and capital lease obligations, less current portion	89,527,336	55,662,790
Estimated fair value of interest rate swaps	1,685,148	-
TOTAL LIABILITIES	117,590,540	79,730,701
COMMITMENTS AND CONTINGENCIES -		
Notes H and K		
NET POSITION:		
Net investment in capital assets	14,753,890	12,535,332
Restricted Expendable	23,057,968	-
Unrestricted	122,256,469	146,940,329
TOTAL NET POSITION	160,068,327	159,475,661
TOTAL LIABILITIES AND NET POSITION	\$ 277,658,867	\$ 239,206,362

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
OPERATING REVENUE:		
Direct revenue from patient care (net of estimated contractual allowances and discounts)	\$ 461,325,599	\$ 427,223,363
Estimated provision for bad debts	(17,329,313)	(22,067,161)
Net direct revenue from patient care less estimated provision for bad debts	443,996,286	405,156,202
Indirect revenue from patient care	152,359,509	143,878,557
TOTAL NET PATIENT SERVICE REVENUE	596,355,795	549,034,759
Other revenue	95,702,332	95,569,997
TOTAL OPERATING REVENUE	692,058,127	644,604,756
OPERATING EXPENSES:		
Contractual services	149,844,813	137,707,285
Insurance	3,207,955	2,695,260
Depreciation and amortization	5,003,015	4,493,543
Operating supplies	15,568,701	14,226,276
Occupancy expenses	7,510,548	6,279,916
Printing and reproduction	163,674	173,659
Dues and subscriptions	1,498,631	1,379,578
Food and entertainment	113,746	297,559
Repairs and maintenance	4,897,495	4,605,809
Travel	207,022	235,585
Advertising	20,134	253,364
Telephone, freight, and postage	1,718,235	1,731,613
Other	(8,166)	391,863
TOTAL OPERATING EXPENSES	189,745,803	174,471,310
OPERATING INCOME	502,312,324	470,133,446
NONOPERATING REVENUE (EXPENSES):		
Investment income	2,612,156	852,444
Interest expense, net	(1,769,972)	(821,962)
Change in mark-to-market of interest rate swaps	(3,432,001)	1,708,171
Loss on disposal of property and equipment	(85,179)	(3,866)
NET NONOPERATING REVENUE (EXPENSES)	(2,674,996)	1,734,787
INCREASE IN NET POSITION BEFORE TRANSFERS	499,637,328	471,868,233

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

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

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
TRANSFERS:		
Transfers to the University of Florida College of Medicine	(489,529,928)	(450,516,512)
Transfers to others	(9,514,734)	(7,957,204)
TOTAL TRANSFERS	(499,044,662)	(458,473,716)
INCREASE IN NET POSITION	592,666	13,394,517
NET POSITION, BEGINNING OF YEAR	159,475,661	146,081,144
NET POSITION, END OF YEAR	\$ 160,068,327	\$ 159,475,661

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on behalf of patients	\$ 593,437,831	\$ 545,901,807
Other receipts	96,682,319	89,277,118
Payments to contractors	(149,844,813)	(137,707,285)
Payments to suppliers and others	(34,943,441)	(22,436,048)
Other	8,166	(391,863)
NET CASH PROVIDED BY OPERATING ACTIVITIES	505,340,062	474,643,729
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers to the University of Florida College of Medicine	(489,529,928)	(450,516,512)
Transfers to others	(9,514,734)	(7,957,204)
CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(499,044,662)	(458,473,716)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(15,919,497)	(27,555,556)
Proceeds from the issuance of debt	36,551,960	24,814,436
Principal payments on capital lease obligations	(99,681)	(91,590)
Principal payments on long-term debt	(2,267,675)	(1,306,122)
Interest paid under capital lease obligations and long-term debt	(1,769,972)	(821,962)
CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	16,495,135	(4,960,794)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales, calls and maturities of investments	31,006,863	1,000,000
Interest and dividends received	1,288,321	427,050
Purchase of investments	(31,526,069)	(1,397,541)
Additions to assets limited as to use, net	(23,057,968)	-
Capital distribution from UF Health South Central LLC	1,371,090	-
Investment in UF Health South Central, LLC	(91,157)	(250,584)
NET CASH USED IN INVESTING ACTIVITIES	(21,008,920)	(221,075)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,781,615	10,988,144
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	73,516,886	62,528,742
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 75,298,501	\$ 73,516,886

See accompanying notes to financial statements.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Statements of Cash Flows - Continued

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 502,312,324	\$ 470,133,446
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,003,015	4,493,543
Increase (decrease) in cash due to changes in:		
Accounts receivable, net	(2,917,964)	(2,889,888)
Due from affiliates	2,172,108	(5,376,204)
Other receivables	(1,106,942)	(1,159,739)
Other assets	(1,022)	(1,600)
Accounts payable and accrued expenses	(1,953,317)	9,429,022
Unearned revenue	1,831,860	15,149
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 505,340,062</u>	<u>\$ 474,643,729</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset additions included in accounts payable	<u>\$ 2,926,850</u>	<u>\$ 815,306</u>

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

NOTE A--REPORTING ENTITY

The Florida Clinical Practice Association, Inc. (the FCPA) is a not-for-profit corporation formed in 1976 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 reports 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, excluding amounts whose use is limited or otherwise restricted, as cash equivalents for purposes of reporting cash flows.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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, 2019 and 2018, cash and cash equivalents included \$20,000,000 held in the Fund.

Assets Limited as to Use: Assets limited as to use consists of proceeds from bond indentures restricted for the purpose of acquiring, constructing and equipping of healthcare facilities. Assets consist of cash and cash equivalents and thus approximate fair value.

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 hedges, 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.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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. *Restricted expendable* net position consists of assets that must be used for a particular purpose that are externally imposed by creditors. *Unrestricted* is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable. The FCPA had no restricted net position at June 30, 2018.

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, 2016 through 2019 are subject to examination by taxing authorities.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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 early adopted this Statement during the year ended June 30, 2019.

NOTE C--INVESTMENTS

The FCPA had the following investments as of June 30, 2019 and 2018:

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

<i>Investments</i>	<i>Maturities</i>	<i>Call Options</i>	<i>Fair Value</i>	
			<i>2019</i>	<i>2018</i>
Federal National Mortgage Association	08/12/2019	Non Call	\$ 1,006,560	\$ 1,061,620
HSBC USA Inc.	04/17/2024	Non Call	981,510	979,800
U.S. Treasury Bonds	08/15/2019	Non Call	2,014,380	2,125,000
U.S. Treasury Bill	11/07/2019	Non Call	5,260,833	-
U.S. Treasury Bill	09/26/2019	Non Call	2,557,124	-
U.S. Treasury Note	12/31/2019	Non Call	3,483,060	-
Vanguard S-T Corp Fund	N/A	N/A	3,978,522	3,771,907
Vanguard Dividend Growth Fund	N/A	N/A	7,518,062	6,315,448
Federal Farm Credit Bank	12/01/2020	09/01/16 & anytime thereafter	994,240	974,520
Dreyfus Treasury & Agency Investments	N/A	N/A	-	10,798,024
TD Wealth Sweep Program	N/A	N/A	22,199	-
Total			\$ 27,816,490	\$ 26,026,319

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, 2019 are as follows:

<i>Types of Investments</i>	<i>Fair Value</i>	<i>Investment Maturities (in Years)</i>			
		<i>Less than 1</i>	<i>1-5</i>	<i>6-10</i>	<i>More than 10</i>
U.S. Treasury Bonds, Bills and Notes	\$ 13,315,397	\$ 13,315,397	\$ -	\$ -	\$ -
Federal Agency Securities and Commercial Bonds and Notes	2,982,310	1,006,560	1,975,750	-	-
Money Market Fund	22,199	22,199	-	-	-
Stock Mutual Fund	7,518,062	7,518,062	-	-	-
Bond Mutual Fund	3,978,522	3,978,522	-	-	-
TOTAL	\$ 27,816,490	\$ 25,840,740	\$ 1,975,750	\$ -	\$ -

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, 2019, 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:

<i>Types of Investments</i>	<i>Fair Value</i>	<i>Less than A/Ba or Not Rated</i>			
		<i>AAA/Aaa</i>	<i>AA/Aa</i>	<i>A/A2 A3</i>	<i>Rated</i>
Federal Agency Securities and Commercial Bonds and Notes	\$ 2,982,310	\$ 2,000,800	\$ -	\$ 981,510	\$ -
Bond Mutual Fund	3,978,522	-	-	3,978,522	-
TOTAL	\$ 6,960,832	\$ 2,000,800	\$ -	\$ 4,960,032	\$ -

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.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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, 2019 as follows:

<i>Issuer</i>	<i>Fair Value</i>	<i>% Total</i>
Federal Farm Credit Bank	\$ 994,240	3.6%
Federal National Mortgage Association	1,006,560	3.6%
HSBC USA Inc.	981,510	3.5%
U.S. Treasury Bonds	2,014,380	7.2%
U.S. Treasury Note	3,483,060	12.5%
U.S. Treasury Bills	7,817,957	28.2%
Vanguard Dividend Growth Fund	7,518,062	27.0%
Vanguard S-T Corp Fund	3,978,522	14.3%
TD Wealth Sweep Program	22,199	0.1%
TOTAL	\$ 27,816,490	100.0%

The changes in fair value of investments for the years ended June 30, 2019 and 2018 are as follows:

	<i>2019</i>	<i>2018</i>
Fair value at end of year	\$ 27,816,490	\$ 26,026,319
Add: Proceeds of called/matured investments	31,006,863	1,000,000
Less: Cost of investments purchased	(31,526,069)	(1,397,541)
Add: Amortization of discount/premium	31,088	4,241
Less: Reinvested dividends	(569,167)	(426,291)
Less: Fair value at beginning of year	(26,026,319)	(25,202,371)
Change in fair value of investments	\$ 732,886	\$ 4,357

The FCPA had \$9,232,184 and \$53,837,503 at June 30, 2019 and 2018, 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, 2019.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Assets	\$ 13,853,628
Liabilities	\$ 142,554
Net position	\$ 13,711,074
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:

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
Gross direct charges from patient care	\$ 1,472,687,701	\$ 1,370,315,328
Less: Contractual adjustments	(1,011,362,102)	(943,091,965)
Estimated provision for bad debts	(17,329,313)	(22,067,161)
Total direct revenue from patient care	443,996,286	405,156,202
Indirect revenue from patient care	152,359,509	143,878,557
Total net patient service revenue	\$ 596,355,795	\$ 549,034,759

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

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
Third-party payers	\$ 362,171,794	\$ 344,005,574
Patients, including self-insured	50,002,409	35,381,378
Medicaid Enhanced Payment Program	49,151,396	47,836,411
	\$ 461,325,599	\$ 427,223,363

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Contractual adjustments for 2019 and 2018 include approximately \$57,000,000 and \$56,000,000, 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, 2019 and 2018 includes \$49,151,396 and \$47,836,411, respectively, related to the Program. Net patient accounts receivable at June 30, 2019 and 2018 includes \$7,712,839 and \$6,707,332, 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 years ended June 30, 2019 and 2018 includes net receipts of \$14,339,708 and \$9,549,189, respectively, related to the program.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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:

	<i>As of June 30,</i>	
	<i>2019</i>	<i>2018</i>
Patient accounts receivable based on established charges	\$ 136,392,511	\$ 128,494,051
Estimated contractual adjustments	(91,803,744)	(86,435,706)
Estimated allowance for uncollectible accounts	(4,817,125)	(5,204,667)
Patient accounts receivable, net	<u>\$ 39,771,642</u>	<u>\$ 36,853,678</u>

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

	<i>As of June 30,</i>	
	<i>2019</i>	<i>2018</i>
Insurance carriers under commercial and managed care plans	\$ 19,350,510	\$ 17,884,810
Medicare	6,322,357	6,167,208
Medicaid	4,258,089	3,716,841
Patients, including self-insured	436,157	518,576
Other	1,691,690	1,858,911
Medicaid Enhanced Payment Program	7,712,839	6,707,332
	<u>\$ 39,771,642</u>	<u>\$ 36,853,678</u>

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

The activity relating to the estimated allowance for uncollectible accounts for the years ended June 30, 2019 and 2018, is summarized as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 5,204,667	\$ 5,338,863
Provision	17,329,313	22,067,161
Charge-offs	(17,716,855)	(22,201,357)
Ending balance	<u>\$ 4,817,125</u>	<u>\$ 5,204,667</u>

FCPA's estimated allowance for uncollectible accounts remained consistent from the year ended June 30, 2018 to the year ended June 30, 2019. 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, 2019.

The FCPA provided uncompensated care with gross charges of approximately \$104,958,000 and \$108,847,000 in 2019 and 2018, respectively. Included in the uncompensated care amounts are approximately \$23,011,000 and \$23,394,000 in charges foregone identified as charity care, in accordance with the FCPA's charity care policy, in 2019 and 2018, respectively. The estimated direct and indirect cost of providing these services totaled approximately \$6,722,000 and \$6,670,000 in 2019 and 2018, 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:

	<i>Balance at</i> <i>June 30, 2018</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at</i> <i>June 30, 2019</i>
Capital assets:					
Building	\$ 36,670,434	\$ -	\$ -	\$ 33,577,688	\$ 70,248,122
Land	1,648,523	-	-	-	1,648,523
Leasehold improvements	3,985,023	62,519	3,199	-	4,044,343
Furniture, equipment and computers	21,900,897	758,166	320,066	725,487	23,064,484
Intangible asset	750,000	-	-	-	750,000
Total capital assets	64,954,877	820,685	323,265	34,303,175	99,755,472
Accumulated depreciation and amortization:					
Building	5,683,982	1,821,171	-	-	7,505,153
Leasehold improvements	2,711,626	209,397	3,199	-	2,917,824

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

	<i>Balance at June 30, 2018</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2019</i>
Furniture, equipment and computers	15,895,287	2,382,600	234,887	-	18,043,000
Intangible asset	562,500	187,500	-	-	750,000
Total accumulated depreciation and amortization	24,853,395	4,600,668	238,086	-	29,215,977
	40,101,482	(3,779,983)	85,179	34,303,175	70,539,495
Capital assets in progress	30,455,072	17,210,356	-	(34,303,175)	13,362,253
Total capital assets, net	\$ 70,556,554	\$ 13,430,373	\$ 85,179	\$ -	\$ 83,901,748

	<i>Balance at June 30, 2017</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2018</i>
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

The FCPA implemented an electronic medical records system (EMR) in fiscal year 2013. During 2019 and 2018, the FCPA recognized approximately \$336,000 and \$688,000, 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 was amortized over the 24-month period of the agreement.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Capital assets in progress as of June 30, 2019 relates to construction projects associated with clinic locations. As of June 30, 2019, estimated additional costs to complete these projects is approximately \$22,198,576.

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 \$402,000 and \$413,000 for the years ended June 30, 2019 and 2018, respectively.

NOTE F--LONG-TERM DEBT

Activity in long-term debt for the years ended June 30, 2019 and 2018 are as follows:

	<i>Balance at June 30, 2018</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2019</i>	<i>Amounts Due Within One Year</i>
Direct borrowings:					
2013 Notes Payable	\$ 8,000,000	\$ -	\$ -	\$ 8,000,000	\$ 280,093
Health Facilities Revenue Bonds, Series 2012	23,142,857	-	(1,306,122)	21,836,735	1,306,122
Health Facilities Revenue Bond, Series 2017	26,448,040	6,551,960	(961,553)	32,038,447	985,941
Health Facilities Revenue Bond, Series 2019		30,000,000	-	30,000,000	-
Total Long-Term Debt	<u>\$ 57,590,897</u>	<u>\$ 36,551,960</u>	<u>\$ (2,267,675)</u>	<u>\$ 91,875,182</u>	<u>\$ 2,572,156</u>
	<i>Balance at June 30, 2017</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2018</i>	<i>Amounts Due Within One Year</i>
Direct borrowings:					
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	<u>\$ 34,082,583</u>	<u>\$ 24,814,436</u>	<u>\$ (1,306,122)</u>	<u>\$ 57,590,897</u>	<u>\$ 2,267,674</u>

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. The 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 3.54% and 3.08% at June 30, 2019 and 2018, respectively. Monthly interest only payments began in September 2012 and run until August 2019 when

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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. The 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 ends 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 2.66% and 2.31% at June 30, 2019 and 2018, 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, 2019, all of the proceeds had been advanced to the FCPA. 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 2.82% and 2.44% at June 30, 2019 and 2018, respectively. The Series 2017 Bond matures in May 2043, with annual principal payments beginning May 1, 2019.

During 2019, the Authority issued a \$30,000,000 tax-exempt Health Facilities Revenue Bond, Series 2019 (the Series 2019 Bond) and loaned the proceeds to the FCPA for the acquisition, construction, and equipping of healthcare facilities. Based on a Financing Agreement dated March 27, 2019 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 2019 Bonds and is required to make debt payments directly to the Bondholder. The Series 2019 Bond requires a monthly interest payment based on a variable rate of 81.5% of the Adjusted one-month LIBOR Rate plus 65.2 basis points. The variable rate was 2.64% at June 30, 2019. The Series 2019 Bond matures in March 2039, with annual principal payments beginning March 1, 2021. The Series 2019 Bond contains a demand purchase option where the Borrower agrees to purchase the entire bond series on March

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

27, 2029 for an amount equal to 100% of the outstanding principal unless the Bondholder provides the Borrower and Issuer written notice 180 day prior to the optional tender date. A portion of the proceeds of this bond issuance are included in assets limited as to use.

There are numerous restrictive covenants contained in the agreements related to the Series 2019 Bond, the Series 2017 Bond, the 2013 Notes Payable and Series 2012 Bonds. The Series 2019 Bond, 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, 2019 and 2018. The Series 2019 Bond, 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.

In fiscal year 2012, the FCPA entered into a ground lease with Shands related to the real property on which the clinic, financed by the Series 2012 Bonds, is located. In fiscal year 2017, the ground lease was amended to add additional land for the new clinic financed by the Series 2017 Bonds. 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 2019, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2020	\$ 2,572,156	\$ 2,510,174	\$ 5,082,330
2021	3,848,183	2,414,534	6,262,717
2022	3,908,826	2,305,948	6,214,774
2023	8,733,692	2,048,718	10,782,410
2024	3,700,966	1,920,186	5,621,152
2025 - 2029	19,544,775	8,028,377	27,573,152
2030 - 2034	21,466,050	5,235,787	26,701,837
2035 - 2039	19,390,249	2,345,661	21,735,910
2040 - 2044	6,760,285	455,382	7,215,667
2045 - 2049	-	-	-
2050 - 2053	1,950,000	1,469,082	3,419,082
	<u>\$ 91,875,182</u>	<u>\$ 28,733,849</u>	<u>\$ 120,609,031</u>

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

NOTE G--CAPITAL LEASE OBLIGATIONS

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

	<i>Balance at June 30, 2018</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2019</i>	<i>Amount Due Within One Year</i>
Capital lease obligations	\$ 430,325	\$ -	\$ 99,681	\$ 330,644	\$ 106,334

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

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

<i>Year Ending June 30,</i>	
2020	\$ 161,268
2021	161,268
2022	94,073
Total minimum lease payments	416,609
Less amount representing interest (rates range from 14.55% to 16.81%)	(85,965)
Present value of net future minimum lease payments	330,644
Less current portion	(106,334)
Present value of future minimum lease payments - long-term	<u>\$ 224,310</u>

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, 2019, are as follows:

<i>Year Ending June 30,</i>	
2020	\$ 6,366,703
2021	5,753,607
2022	5,397,307
2023	3,746,425
2024	3,720,803

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

<u>Year Ending June 30,</u>	
2025-2029	14,378,401
2030-2034	9,964,443
2035-2039	10,462,821
2040-2044	3,149,751
2045-2049	3,477,579
2050-2052	2,257,956
Total minimum payments required	<u>\$ 68,675,796</u>

The FCPA recognized approximately \$5,463,000 and \$4,671,000 in lease expense for the years ended June 30, 2019 and 2018, respectively.

NOTE I--DERIVATIVE FINANCIAL INSTRUMENTS

With the issuance of the Series 2019 Bond, 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 four 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 \$21,836,735 and \$23,142,857 at June 30, 2019 and 2018, 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, 2019 and 2018. 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 \$32,038,447 and \$26,448,040 at June 30, 2019 and 2018, respectively. This agreement terminates May 1, 2027 unless terminated at an earlier date.

With respect to the Series 2019 Bond, the FCPA executed a swap agreement where the FCPA receives a variable rate equal to 81.5% of the one-month LIBOR-BBA rate, plus 65.2 basis points, and pays a fixed rate of 2.51% on the notional amount of \$30,000,000 at June 30, 2019. This agreement terminates March 27, 2029 unless terminated at an earlier date.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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 (a liability of \$(1,685,148) and an asset of \$1,746,853 at June 30, 2019 and 2018, 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, 2019 and 2018.

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 \$91,540,000 and \$92,167,000, for the years ended June 30, 2019 and 2018, 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 2019 and 2018, the FCPA received approximately \$97,288,000 and \$88,298,000, 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 \$462,825 in unearned revenue from Shands as of June 30, 2019. There was no unearned revenue from Shands as of June 30, 2018.

Also, during fiscal years 2019 and 2018, the FCPA incurred approximately \$130,192,000 and \$112,914,000, respectively, per year in contractual services expense under various contracts with Shands. Accounts payable and accrued expenses as of June 30, 2019 and 2018, includes a payable to Shands for certain benefit expenses relating to Shands employees associated with these contractual services.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Other amounts included in due from affiliates at June 30, 2019 and 2018 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.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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.

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 have occurred, and are expected to continue 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.

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

- *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, 2019 and 2018, and their respective classification under the GASB Statement No. 72 valuation hierarchy:

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2019:

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Assets:				
Investments in U.S. Treasury Bonds, Bills and Notes	\$ 13,315,397	\$ 13,315,397	\$ -	\$ -
Investments in Federal Agency Securities and Commercial Bonds and Notes	2,982,310	-	2,982,310	-
Investments in Money Market Fund	22,199	-	22,199	-
Investments in Stock Mutual Fund	7,518,062	-	7,518,062	-
Investments in Bond Mutual Fund	3,978,522	-	3,978,522	-
	<u>\$ 27,816,490</u>	<u>\$ 13,315,397</u>	<u>\$ 14,501,093</u>	<u>\$ -</u>
Liabilities:				
Interest rate swap agreements, net	\$ 1,685,148	\$ -	\$ -	\$ 1,685,148

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

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
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
	<u>\$ 27,773,172</u>	<u>\$ 2,125,000</u>	<u>\$ 23,901,319</u>	<u>\$ 1,746,853</u>

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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, 2019 financial statements.

Other Financial Information

FLORIDA CLINICAL PRACTICE ASSOCIATION, INC.

***Statements of Revenue, Expenditures and Changes in Net Position of
Fund 171 – Transfers from Component Units Fund (HSCFCPA) - Unaudited***

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
REVENUE	\$ (3,313)	\$ 50,079
EXPENDITURES:		
Salaries and benefits	438,755,417	404,709,101
Contractual services	12,476,715	10,963,923
Insurance	11,977	15,437
Electronic data processing charges	4,422,314	4,686,627
Operating supplies	7,649,437	6,109,425
Occupancy expenses	656,616	527,090
Printing and reproduction	543,806	579,627
Dues and subscriptions	2,057,294	2,136,316
Food and entertainment	2,202,269	1,786,854
Repairs and maintenance	1,635,648	1,636,450
Travel	5,030,171	4,346,055
Advertising	710,774	772,570
Telephone, freight and postage	1,631,707	1,685,053
University overhead	9,943,247	10,632,023
Other	3,065,622	3,718,116
Total expenditures	<u>490,793,014</u>	<u>454,304,667</u>
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	(490,796,327)	(454,254,588)
TRANSFERS:		
From Florida Clinical Practice Association, Inc.	489,529,928	450,516,512
Total transfers	<u>489,529,928</u>	<u>450,516,512</u>
DEFICIT OF REVENUE AND TRANSFERS OVER EXPENDITURES NET DEFICIENCY, BEGINNING OF YEAR	(1,266,399)	(3,738,076)
NET DEFICIENCY, END OF YEAR	<u>\$ (14,081,258)</u>	<u>\$ (12,814,859)</u>

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, 2019, 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 30, 2019.

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 30, 2019