



Financial Statements
(and Other Information)

***Faculty Clinic, Inc. (A Component Unit of the
University of Florida)***

Years Ended June 30, 2019 and 2018

FACULTY CLINIC, INC.

Financial Statements (and Other Information)

Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Faculty Clinic, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Faculty Clinic, Inc. (the Clinic) (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 Clinic's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Clinic'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 audits 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 Faculty Clinic, Inc., as of June 30, 2019 and 2018, and the changes in its financial position and its 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 to 8 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 audits 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2019 on our consideration of the Clinic'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 Clinic's internal control over financial reporting and compliance.

DYA, P.C.

Tampa, Florida
September 18, 2019

Management's Discussion and Analysis

FACULTY CLINIC, INC.

Management's Discussion and Analysis

This discussion and analysis of the Faculty Clinic, Inc.'s (the Clinic) financial statements is intended to provide an overview of its financial results for the year ended June 30, 2019. This section, along with the financial statements and related footnotes, has been prepared by, and is the responsibility of, management. This discussion should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes.

The Clinic was restructured in 1995 to operate primarily as a facilities management company and lease space to University of Florida Jacksonville Physicians, Inc. (UFJP) and Shands Jacksonville Medical Center, Inc. (Shands Jacksonville). The Clinic has no direct employees. All staff are employees of University of Florida Jacksonville Physicians, Inc. and leased to the Clinic.

OVERVIEW

The Clinic's net position increased by \$45,483 for fiscal year 2019 as compared to a decrease of \$26,300 in the prior fiscal year. The structure of the Clinic is such that its purpose is to maintain the building and equipment and collect sufficient rent to cover operating expenses and fund the debt service on the bonds outstanding from the Series 1989 bond issue.

Total assets increased by \$13,038 or 0.51%. Current assets increased by \$374,134 during the fiscal year, while net capital assets decreased by \$361,096. Total liabilities decreased by \$32,445 or 3.3%. These changes will be explained in detail later in this discussion.

FINANCIAL ANALYSIS

The series of financial statements making up this annual report have been prepared in accordance with accounting principles generally accepted in the United States of America. One of the basic tenets followed by the Clinic is the accounting for income and expenses using the accrual basis of accounting wherein income and expenses are recorded when earned and incurred irrespective of the cash transaction. Refer to Note B to the financial statements for a further discussion of accounting and reporting policies.

CONDENSED STATEMENTS OF NET POSITION

	<i>June 30,</i>		<i>Increase</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 486,240	\$ 957,650	\$ (471,410)	-49.2%
Assets limited as to use, required for current obligations	800,000	-	800,000	100.0%

FACULTY CLINIC, INC.

Management's Discussion and Analysis - Continued

	<i>June 30,</i>		<i>Increase</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
Prepaid expenses and other current assets	17,711	16,553	1,158	7.0%
Due from related parties	44,386	-	44,386	100.0%
TOTAL CURRENT ASSETS	1,348,337	974,203	374,134	38.4%
CAPITAL ASSETS, NET	1,166,177	1,527,273	(361,096)	-23.6%
TOTAL ASSETS	\$ 2,514,514	\$ 2,501,476	\$ 13,038	0.5%

Total assets as of June 30, 2019 were \$2,514,514 compared to \$2,501,476 at June 30, 2018. Cash and cash equivalents of \$486,240 as of June 30, 2019 were \$471,410 lower than at June 30, 2018. This was due to \$800,000 in cash being designated as an asset limited as to use, for the July 1, 2019 bond payment. Prepaid expenses and other current assets had a small increase of \$1,158. The due from related parties had a balance of \$44,386 at June 30, 2019 for a lease payment from Shands Jacksonville. Offsetting the increase in current assets was a decrease in net capital assets of \$361,096.

	<i>June 30,</i>		<i>Increase</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
CAPITAL ASSETS, NET				
Building	\$ 1,102,330	\$ 1,445,631	\$ (343,301)	-23.7%
Equipment	63,847	81,642	(17,795)	-21.8%
CAPITALIZED ASSETS, NET	\$ 1,166,177	\$ 1,527,273	\$ (361,096)	-23.6%

The Clinic's largest asset classification is capital assets. The Clinic's investment in capital assets, net of depreciation, is \$1,166,177 at June 30, 2019, a decrease from that at June 30, 2018 of \$361,096 or 23.6%. Additional building components and equipment purchased during the year, before accumulated depreciation and net of current year retirements, were \$97,963. The most significant additions during the year were replacement of various doors and door controls for about \$48,850. Items including water softener tanks, security alarm system, flooring and water heater controls accounted for the remainder of the increase. Accumulated depreciation on the building and equipment at the end of 2019 was \$13,168,850 or 3.6% greater than last year.

	<i>June 30,</i>		<i>Increase</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 111,396	\$ 137,554	\$ (26,158)	-19.0%
Accrued contract labor	18,432	21,391	(2,959)	-13.8%

FACULTY CLINIC, INC.

Management's Discussion and Analysis - Continued

	<i>June 30,</i>		<i>Increase (Decrease)</i>	<i>Percent Change</i>
	<i>2019</i>	<i>2018</i>		
Due to related parties	32,773	36,101	(3,328)	-9.2%
Current portion of long term debt	800,000	-	800,000	100.0%
TOTAL CURRENT LIABILITIES	962,601	195,046	767,555	393.5%
LONG-TERM LIABILITIES				
Bonds payable	-	800,000	(800,000)	-100.0%
TOTAL LIABILITIES	\$ 962,601	\$ 995,046	\$ (32,445)	-3.3%

The largest liability of the Clinic is the outstanding bonds payable of \$800,000 remaining from the issuance of \$8,500,000 in Industrial Development Revenue Bonds Series 1989 (the Bonds). This balance is the same as prior year due to the early payment (June 29, 2018) of the July 1, 2018 payment. At year end 2018 this payable was classified as a long term liability, but now is classified as current. See Note E to the financial statements for a detailed discussion of the Bonds, scheduled maturities, and progression of the balance.

Accounts payable and accrued expenses at June 30, 2019 decreased by \$26,158 from June 30, 2018, due to the timing of payments made and reduction of bond related liabilities. Accrued contract labor decreased by \$2,959 at June 30, 2019, while amounts due to related parties had a decrease of \$3,328 at year end. See Note F to the financial statements. In summary, total liabilities as of June 30, 2019 were \$962,601 a decrease of \$32,445 or 3.3% from prior year end.

CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	<i>Year Ended June 30,</i>		<i>Increase (Decrease)</i>	<i>Percent Change</i>
	<i>2019</i>	<i>2018</i>		
REVENUE:				
Rental income	\$ 1,195,348	\$ 1,212,897	\$ (17,549)	-1.4%
State operating and maintenance (O&M) funding	336,222	336,222	-	0.0%
TOTAL REVENUE	1,531,570	1,549,119	(17,549)	-1.1%
EXPENSES:				
Contract labor	319,274	293,461	25,813	8.8%
Fees	108,868	109,274	(406)	-0.4%
Depreciation and amortization	459,059	480,584	(21,525)	-4.5%
Other operating expenses	612,053	653,907	(41,854)	-6.4%
TOTAL OPERATING EXPENSES	1,499,254	1,537,226	(37,972)	-2.5%
INCOME FROM OPERATIONS	32,316	11,893	20,423	171.7%
NET NONOPERATING REVENUE (EXPENSE)	13,167	(38,193)	51,360	134.5%
INCREASE (DECREASE) IN NET POSITION	\$ 45,483	\$ (26,300)	\$ 71,783	272.9%

FACULTY CLINIC, INC.

Management's Discussion and Analysis - Continued

Revenue: Revenue is generated from lease payments for clinical and office space from UFJP and Shands Jacksonville and also consists of operating and maintenance (O&M) funding granted by the State Legislature for the space occupied by University of Florida (UF) functions. Rental income of \$1,195,348 decreased by less than 1.5% from fiscal year 2018. State O&M funding remained flat from the prior fiscal year. This funding from the state of Florida flows through the University of Florida.

Operating Expenses: Operating expenses totaled \$1,499,254 for fiscal year 2019, down by \$37,972 or 2.5% from the prior year. Contract labor increased by 8.8% or \$25,813 from fiscal year 2018. The primary factor was the decision to classify temporary services in the contract labor category as opposed to the fees categories as in previous years. This accounted for \$16,631 of the increase. There was also a market survey salary increase that was effective January 1, 2019. Fees were only minimally lower by \$406 or 0.4%, despite the reclassification of temporary services, which accounted for a little over \$11,000 in the prior year's amount. Depreciation and amortization decreased by \$21,525, as the depreciation related to items that became fully depreciated over the course of the year was greater than the depreciation on new items that were purchased. The other operating expenses category, which is the largest category of operating expense, at just over 40% of the total, had a fairly large decrease of \$41,854 or 6.4% below prior year. Repairs and maintenance costs declined by a little more than \$30,000. Although down from last year, the amount spent on repairs and maintenance was still approximately \$251,000. While no major repair projects were undertaken during fiscal year 2019, HVAC repairs continue to be the major source of repair expense. Supply expense fell by \$17,995 or 24% with the largest decrease coming from housekeeping supplies. After decreasing the previous two years, utility expenses increased by 2.1% or \$5,800. The largest contributor to the increase was electric expense which was up by \$4,415.

Nonoperating Items: The main component of nonoperating items is interest expense, which consists of interest expense on the bonds as well as other bond related costs. This category fell by \$48,318 from fiscal year 2018 and was actually a credit in fiscal year 2019. Interest expense on the bonds decreased by \$4,794 as the outstanding bond balance during the year was just over one half the amount it was during the previous fiscal year. The interest rate on the bonds was at 1.55% at the beginning of the year, climbed steadily to 1.75% by the third quarter before ending the year at 1.96% on June 30, 2019. The letter of credit expense and remarketing fees decreased by \$46,656. A \$40,000 credit adjustment was made to the letter of credit expense to adjust the related liability balance. Interest income rose to \$4,174 in fiscal year 2019 from \$1,132 in the prior year. Thus, the overall change in net nonoperating revenue from year to year was an increase of \$51,360.

FACULTY CLINIC, INC.

Management's Discussion and Analysis - Continued

CONDENSED STATEMENTS OF CASH FLOWS

	<i>Year Ended June 30,</i>		<i>Increase</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 417,488	\$ 534,349	\$ (116,861)	-21.9%
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(93,072)	(778,487)	685,415	-88.0%
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(795,826)	1,132	(796,958)	-70402.7%
NET DECREASE IN CASH AND CASH EQUIVALENTS	(471,410)	(243,006)	(228,404)	94.0%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	957,650	1,200,656	(243,006)	-20.2%
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 486,240	\$ 957,650	\$ (471,410)	-49.2%

Overall there was a \$471,410 decline in the cash balance from fiscal year 2019 to fiscal year 2018, with an ending cash balance of \$486,240.

Cash Provided By Operating Activities: Cash provided by operating activities declined from \$534,349 to \$417,488, a decrease of \$116,861 or 21.9%. Receipts from rentals decreased by \$17,549 from fiscal year 2018 to \$1,195,348 while receipts of contributions from State O&M funding remained flat at \$336,222. Payments to suppliers and for operating expenses increased by 10.3% or \$74,170 in 2019 to \$791,849 while payments related to contract labor increased by 8.5% or \$25,142 from 2018 to a total of \$322,233.

Cash Used In Capital and Related Financing Activities: In fiscal year 2019 only \$93,072 was used in capital and related financing activities. As the July 1, 2018 bond payment was actually made in fiscal year 2018 there was no debt repayment in the current year. The largest use of cash in this category for fiscal year 2019 was for capital purchases. Cash used for building improvements and equipment purchases was \$102,065, representing an increase of \$62,903 from the amount used in fiscal year 2018. Additional capital purchases were previously explained in the Capital Asset section of this discussion. In fiscal year 2018, payments for interest expense on outstanding bonds and related financing costs were \$39,325 in addition to the \$700,000 payment on the bonds. In total, there was a \$685,415 decrease in cash used in capital and related financing activities for fiscal year 2019 as compared to fiscal year 2018.

Cash Provided By Investing Activities: The net cash used in investing activities was \$795,826 in fiscal year 2019. This represents the \$800,000 transferred to assets limited as to use, offset by the

FACULTY CLINIC, INC.

Management's Discussion and Analysis - Continued

\$4,174 of interest income for the year. In fiscal year 2018 the sole activity in this category was interest income of \$1,132.

ECONOMIC OUTLOOK

As a facilities management company, the Clinic will continue to have key challenges in the coming years related to utility costs and increasing repair and maintenance costs on the building and equipment due to aging.

The variable rate bonds issued by the Clinic have an outstanding balance of \$800,000 at June 30, 2019 with the final payment due to be made on July 1, 2019 (in fiscal year 2020). Thus the need to build cash for debt payments, and concerns about the interest rate on the debt will no longer be factors in the future. The focus of the Clinic will now be to rebuild the cash balances to fund major repairs of the building and related equipment needed in future years. Various investment alternatives will be evaluated to balance availability, security and rate of return.

The Clinic will continue to face pressure from rising costs of facility and maintenance expenses due to the age of the building. Steps have been taken over the past several years for the Clinic to be more energy efficient. Electric expense did increase 2.0% from fiscal year 2018 after decreasing in both fiscal years 2017 and 2018. Water and sewer expense also increased, but by less than 1% from the prior year. Based on recent history, repairs to the HVAC systems will continue to be a major need of the Clinic. Major repair or replacement items scheduled for fiscal year 2020 include the fire alarm panel, LED exit light fixtures and common area flooring replacement. In future years, there will be a need to upgrade the elevators in the building. Lease rates are projected to remain flat for fiscal year 2020. As the bonds are due to be paid off at the start of fiscal year 2020, changes in lease rates for future years will be driven mainly by facility operating and maintenance costs.

CONTACTING THE CLINIC

This financial report is designed to provide the Clinic's Board of Directors, its creditors, and the Board of Trustees of the University of Florida with a general overview of the Clinic's financial position, operations and cash flows. If you have questions about this report or need additional information, contact the Financial Reporting Department of the Clinic at (904) 244-9500.

Audited Financial Statements

FACULTY CLINIC, INC.

Statements of Net Position

	<i>June 30,</i>	
	<i>2019</i>	<i>2018</i>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 486,240	\$ 957,650
Assets limited as to use, required for current obligations	800,000	-
Prepaid expenses and other current assets	17,711	16,553
Due from Shands Jacksonville Medical Center, Inc.	44,386	-
TOTAL CURRENT ASSETS	<u>1,348,337</u>	<u>974,203</u>
CAPITAL ASSETS:		
Building and improvements	10,468,837	10,370,874
Equipment	3,866,190	3,866,190
TOTAL CAPITAL ASSETS	<u>14,335,027</u>	<u>14,237,064</u>
Less: accumulated depreciation and amortization	<u>(13,168,850)</u>	<u>(12,709,791)</u>
TOTAL CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>1,166,177</u>	<u>1,527,273</u>
TOTAL ASSETS	<u>\$ 2,514,514</u>	<u>\$ 2,501,476</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 111,396	\$ 137,554
Accrued contract labor	18,432	21,391
Due to University of Florida Jacksonville Physicians, Inc.	32,773	36,101
Current portion of long-term debt	800,000	-
TOTAL CURRENT LIABILITIES	<u>962,601</u>	<u>195,046</u>
LONG-TERM DEBT	-	800,000
TOTAL LIABILITIES	<u>962,601</u>	<u>995,046</u>
COMMITMENTS AND CONTINGENCIES - Note H		
NET POSITION:		
Net investment in capital assets	366,177	727,273
Restricted for:		
Debt service	800,000	-
Unrestricted	385,736	779,157
TOTAL NET POSITION	<u>1,551,913</u>	<u>1,506,430</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,514,514</u>	<u>\$ 2,501,476</u>

FACULTY CLINIC, INC.

Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30,</i>	
	2019	2018
REVENUE:		
Rental income	\$ 1,195,348	\$ 1,212,897
State operating and maintenance funding	336,222	336,222
TOTAL REVENUE	1,531,570	1,549,119
EXPENSES:		
Contract labor	319,274	293,461
Fees	108,868	109,274
Depreciation and amortization	459,059	480,584
Insurance, repairs and maintenance	268,015	298,053
Supplies	56,852	74,847
Utilities and other	287,186	281,007
TOTAL EXPENSES	1,499,254	1,537,226
OPERATING INCOME	32,316	11,893
NONOPERATING REVENUE (EXPENSE):		
Interest income	4,174	1,132
Interest and related financing expense	8,993	(39,325)
NET NONOPERATING REVENUE (EXPENSE)	13,167	(38,193)
INCREASE (DECREASE) IN NET POSITION	45,483	(26,300)
NET POSITION, BEGINNING OF YEAR	1,506,430	1,532,730
NET POSITION, END OF YEAR	\$ 1,551,913	\$ 1,506,430

FACULTY CLINIC, INC.

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from rentals	\$ 1,195,348	\$ 1,212,897
Receipt of contributions from State operating and maintenance funding	336,222	336,222
Payments to suppliers and for operating expenses	(791,849)	(717,679)
Payments related to contract labor	(322,233)	(297,091)
NET CASH PROVIDED BY OPERATING ACTIVITIES	417,488	534,349
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(102,065)	(39,162)
Principal payments on long-term debt	-	(700,000)
Interest and related financing costs paid	8,993	(39,325)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(93,072)	(778,487)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	4,174	1,132
Cash transferred to assets limited as to use	(800,000)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(795,826)	1,132
NET DECREASE IN CASH AND CASH EQUIVALENTS	(471,410)	(243,006)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	957,650	1,200,656
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 486,240	\$ 957,650

FACULTY CLINIC, INC.

Statements of Cash Flows - Continued

	<i>Year Ended June 30,</i>	
	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 32,316	\$ 11,893
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	459,059	480,584
Increase (decrease) in cash due to changes in:		
Prepaid expenses and other current assets	(1,158)	3,454
Accounts payable and accrued expenses	(22,056)	(2,188)
Accrued contract labor	(2,959)	(3,630)
Due to University of Florida Jacksonville Physicians, Inc.	(3,328)	301
Due from Shands Jacksonville Medical Center, Inc.	(44,386)	43,935
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 417,488</u>	<u>\$ 534,349</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset additions in accounts payable	<u>\$ 9,591</u>	<u>\$ 13,693</u>

FACULTY CLINIC, INC.

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

NOTE A--REPORTING ENTITY

Faculty Clinic, Inc. (the Clinic) is a nonprofit, tax-exempt corporation originally organized to operate a multi-specialty medical clinic providing outpatient diagnostic and ambulatory surgical care and to further medical education. The Clinic's Board of Directors includes representation from Shands Jacksonville Medical Center, Inc. (Shands Jacksonville), the University of Florida (the University) and University of Florida Jacksonville Physicians, Inc. (UFJP).

Effective January 1, 1995, the Clinic was restructured to operate primarily as a facilities management company that leases defined practice areas to Shands Jacksonville and UFJP.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements present the financial position and results of operations and cash flows of the Clinic. The Clinic is a component unit of the University and, as a result, the Clinic's financial statements are included in the combined financial statements of the University.

The Clinic'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 Clinic has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting.

Basis of Accounting: The Clinic'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 Clinic follows GASB standards of accounting and financial reporting.

Cash and Cash Equivalents: The Clinic considers all highly liquid investments including cash and interest-bearing deposits with original or remaining maturities of less than 90 days when purchased, excluding assets limited as to use, as cash equivalents for purposes of reporting cash flows.

Capital Assets: The Clinic's capital assets are reported at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets which range from 3 to 30 years. Gains and losses on dispositions are recorded in the year

FACULTY CLINIC, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

of disposal. The Clinic periodically reviews capital assets for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized if the sum of the expected cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset.

Net Position: Net position of the Clinic is classified in components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the remaining balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted* is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Clinic. *Unrestricted* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*. The Clinic had no restricted net position at June 30, 2018.

Operating Revenue and Expenses: The Clinic's statements of revenue, expenses and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with the rental of Clinic space, the Clinic's principal activity, and state operating and maintenance funding. Other revenue, including interest income, is reported as nonoperating revenue. Operating expenses are all expenses incurred other than financing costs and other nonoperating gains/losses.

Income Taxes: The Clinic is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes. The Internal Revenue Code provides for taxation of certain unrelated business income. The Clinic has no taxable unrelated business income. 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.

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. Future results could differ from those 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

FACULTY CLINIC, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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.

NOTE C--ASSETS LIMITED AS TO USE

Assets limited as to use consists of cash funds required to be held in a bond escrow account in an amount equal to the current bond payment, which is due July 1 of each year, as required by the letter of credit (see Note E). Interest earned on deposits to this account is not restricted. As of June 30, 2018, there were no assets limited as to use due to the July 1, 2018 bond payment being paid prior to June 30, 2018.

NOTE D--CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2019 and 2018 is as follows:

	<i>Balance at June 30, 2018</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2019</i>
Capital assets:					
Building and improvements	\$ 10,370,874	\$ 97,963	\$ -	\$ -	\$ 10,468,837
Equipment	3,866,190	-	-	-	3,866,190
Total capital assets	14,237,064	97,963	-	-	14,335,027
Accumulated depreciation:					
Building and improvements	8,925,243	441,264	-	-	9,366,507
Equipment	3,784,548	17,795	-	-	3,802,343
Total accumulated depreciation	12,709,791	459,059	-	-	13,168,850
Capital assets, net	\$ 1,527,273	\$ (361,096)	\$ -	\$ -	\$ 1,166,177

FACULTY CLINIC, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

	<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 and improvements	\$ 10,323,925	\$ 46,949	\$ -	\$ -	\$ 10,370,874
Equipment	3,860,284	5,906	-	-	3,866,190
Total capital assets	14,184,209	52,855	-	-	14,237,064
Accumulated depreciation:					
Building and improvements	8,464,523	460,720	-	-	8,925,243
Equipment	3,764,684	19,864	-	-	3,784,548
Total accumulated depreciation	12,229,207	480,584	-	-	12,709,791
Capital assets, net	\$ 1,955,002	\$ (427,729)	\$ -	\$ -	\$ 1,527,273

NOTE E--LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2019 and 2018, respectively, was as follows:

	<i>Balance at June 30, 2018</i>	<i>Issuances</i>	<i>Payments</i>	<i>Balance at June 30, 2019</i>	<i>Amounts Due Within One Year</i>
Liabilities:					
Series 1989 Bonds	\$ 800,000	\$ -	\$ -	\$ 800,000	\$ 800,000
	<i>Balance at June 30, 2017</i>	<i>Issuances</i>	<i>Payments</i>	<i>Balance at June 30, 2018</i>	<i>Amounts Due Within One Year</i>
Liabilities:					
Series 1989 Bonds	\$ 1,500,000	\$ -	\$ (700,000)	\$ 800,000	\$ -

On January 31, 1989, the City of Jacksonville, Florida issued \$8,500,000 in variable rate Industrial Development Revenue Bonds Series 1989 (the Bonds) on behalf of the Clinic to finance the construction of a new facility. The Bonds are subject to mandatory sinking fund redemption in varying amounts, on July 1st of each year, commencing July 1, 1991 and continuing through 2019, at a redemption price equal to the principal amount to be redeemed, plus interest accrued to the redemption date but without premium. The Bonds are subject to conversion to a fixed rate, at the Clinic's option, upon proper notice to the bondholders. Bondholders have a seven-day tender option available prior to the conversion date during which time the bondholders may request the trustee to purchase any outstanding bonds plus accrued interest.

FACULTY CLINIC, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Interest on the Bonds is payable quarterly until redemption. In the event of conversion to a fixed rate, interest is payable monthly. The interest rate may be adjusted on a weekly basis to maintain marketability of the Bonds as determined by the remarketing agent. The interest rate on the bonds was 1.96% and 1.55% at June 30, 2019 and 2018, respectively. Bond principal and interest payments are collateralized by an irrevocable transferrable letter of credit with Branch Banking & Trust Company (BB&T) in the amount of \$800,000 at June 30, 2019.

The BB&T letter of credit is collateralized by a first priority interest in the Bonds and gross revenue of the Clinic. The letter of credit agreement, which is guaranteed by UFJP, Shands Jacksonville and Shands Jacksonville Healthcare, Inc., expires August 1, 2019. The BB&T letter of credit requires UFJP as a joint and individual guarantor to meet, on a combined basis, certain other financial covenants such as maintaining established fixed charge coverage and minimum unrestricted cash and investments to funded debt ratios.

The future estimated debt service requirements of the Bonds, based on the interest rate in effect at June 30, 2019 are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2020	\$ 800,000	\$ -	\$ 800,000

The Bonds were paid in full on July 1, 2019.

NOTE F--RELATED PARTY TRANSACTIONS

During 1995, the Clinic, as lessor, entered into operating lease agreements with UFJP and Shands Jacksonville for the lease of certain office space and equipment through January 1, 2031.

The rental income the Clinic receives is subject to adjustment based on current operating and financing expenses with a view toward passing the costs of the space and equipment to UFJP and Shands Jacksonville.

The following are the future estimated rental payments the Clinic expects to receive on the previously described operating lease arrangements with UFJP and Shands Jacksonville:

FACULTY CLINIC, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

<u>Year Ending June 30,</u>	
2020	\$ 1,189,932
2021	1,189,932
2022	1,189,932
2023	1,189,932
2024	1,189,932
2025-2029	5,949,660
2030-2031	1,784,898
	<u>\$ 13,684,218</u>

The Clinic received all rent owed from UFJP for fiscal years 2019 and 2018 and from Shands Jacksonville for fiscal year 2018.

University of Florida Jacksonville Physicians, Inc.: The Clinic owed \$32,773 and \$36,101 to UFJP for insurance, management fees and other expenses at June 30, 2019 and 2018, respectively.

Additionally, UFJP charged the Clinic a management fee of \$45,000 in each of the years ended June 30, 2019 and 2018, which is included in fees expense in the accompanying statements of revenue, expenses and changes in net position.

The Clinic has no employees. All staffing is provided by UFJP on a contract basis and is recognized as contract labor expense in the statements of revenue, expenses and changes in net position for the years ended June 30, 2019 and 2018.

Shands Jacksonville: The Clinic had a net receivable from Shands Jacksonville of \$44,386 for rental income at June 30, 2019. There was no net receivable from Shands Jacksonville at June 30, 2018.

State O&M Funding: During 2003, the State approved Operating & Maintenance (O&M) funding for the Clinic. Such funding amounted to \$336,222 for each of the years ended June 30, 2019 and 2018. State O&M funding is appropriated for repairs and maintenance expenditures.

NOTE G--RETIREMENT PLAN

The Clinic established a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code in December 1987 for eligible employees. There were no contributions to this plan in 2019 and 2018. The current staff are all employees of UFJP and are leased to the Clinic. These employees participate in the UFJP defined contribution plan. Retirement contributions for

FACULTY CLINIC, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

these employees were \$6,516 and \$5,571 for the years ended June 30, 2019 and 2018, respectively.

NOTE H--COMMITMENTS AND CONTINGENCIES

Lease Agreement: Effective January 1, 1989, the Clinic and the University of Florida Board of Trustees entered into a sublease agreement related to the land which the Clinic occupies. The lease agreement provides for the Clinic to make annual payments of \$1 through January 1, 2031. The lease term may be extended so long as any principal, premium or interest on any bonds remains unpaid. Renewals beyond the initial term shall be subject to such additional terms as the parties may agree. The land is leased by the University of Florida Board of Trustees from the Duval County Hospital Authority and Shands Jacksonville.

Professional Liability Insurance: The Clinic is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

The Clinic ceased providing medical care and treatment January 1, 1995; however, the Clinic continues to maintain professional liability protection on an occurrence basis from the University of Florida J. Hillis Miller Health Center/Jacksonville Self-Insurance Program, a self-insurance program created and administered by the Florida Board of Governors pursuant to Section 1004.24, Florida Statutes. There are no professional medical malpractice claims currently pending against the Clinic and none can be reasonably anticipated given Florida's two-year statute of limitations and four-year statute of repose (s. 95.11, Florida Statutes) for such claims. Professional liability protection is obtained by the Clinic primarily to provide for the defense costs necessarily incurred to respond to and defend any unsupported allegations and litigation filed against the Clinic.

Concentration of Credit Risk: Certain financial instruments potentially subject the Clinic to concentrations of credit risk. The Clinic maintains its cash and cash equivalents with what it believes to be high quality financial institutions and thus limits its credit exposure. The cash maintained in these institutions may from time to time exceed federally insured limits; however, management believes the credit risk to be minimal.

NOTE I--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying value of its financial instruments, including cash and cash equivalents, prepaid expenses and other current assets, assets limited as to use, accounts payable and accrued expenses, accrued salaries and benefits and other current liabilities are at fair value or approximate fair value due to the nature and short-term maturities of these instruments.

FACULTY CLINIC, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Management also estimates that the carrying value of its long-term debt approximates fair value due to the variable rate and weekly remarketing feature.

NOTE J--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 except as discussed in Note E.

Other Information



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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 the
Faculty Clinic, Inc.:

We have audited, 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, the financial statements of the business-type activities of the Faculty Clinic, Inc. (the Clinic) (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 Clinic's basic financial statements, and have issued our report thereon dated September 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Clinic'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 Clinic's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clinic'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 Clinic'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 Clinic'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 Clinic'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 Clinic's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PYA, P.C.

Tampa, Florida
September 18, 2019