



Financial Statements

Central Florida Clinical Practice Organization, Inc.

Years Ended June 30, 2019 and 2018

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Financial Statements

Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Central Florida Clinical Practice Organization, Inc. (the CFCPO) (a component unit of the University of Central 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 CFCPO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 CFCPO'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 CFCPO'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 Central Florida Clinical Practice Organization, 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 through 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 13, 2019 on our consideration of the CFCPO'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 CFCPO's internal control over financial reporting and compliance.

PYA, PC

Tampa, Florida
September 13, 2019

Management's Discussion and Analysis

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Management's Discussion and Analysis

INTRODUCTION

This section of the Central Florida Clinical Practice Organization, Inc.'s (the CFCPO) annual report provides an overview of its financial results for the years ended June 30, 2019 and 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes. The financial statements, footnotes, and this discussion and analysis are the responsibility of management.

The primary mission of the CFCPO is to provide administrative services for the University of Central Florida College of Medicine's (College of Medicine) clinical mission, that includes UCF Health, the faculty practice of the College, and HealthARCH, a healthcare consulting unit. As part of the administrative services, the CFCPO performs the billing and collection of professional fees associated with the practice of medicine, advisory services provided by HealthARCH, and directly pays the associated non-salary operating expenses for those services. The CFCPO also transfers money back to the College of Medicine to fund associated faculty and staff compensation and other reporting expenses and holds certain assets such as medical equipment that are reported in the financial statements.

HealthARCH has provided education and direct technical assistance to over 10 thousand providers at over 1 thousand organizations since its inception in 2010. Patient Centered Medical Home (PCMH), Revenue Cycle and the Merit Based Incentive Payment System are the key services behind HealthARCH's fee for service revenue.

The most significant operating events for the CFCPO in Fiscal Year 2019 were the conversion to a new electronic health record and the outsourcing of the revenue cycle to a third-party administrator, both related to UCF Health, both of which happened at the beginning of November of 2018. There was no impact on meeting budgetary targets since both events were anticipated and budgeted accordingly.

Part of the consideration to move to a different electronic health record and outsourcing revenue cycle to a third-party administrator was to improve revenue cycle analytics and billing knowledge specific to various clinical specialties. Each specialty has unique coding and billing requirements that were handled previously in-house. UCF Health comprises more than 10 specialties and the CFCPO as its billing provider was confronted with enormous challenges maintaining adequate billing performance with its in-house staff and overall limited resources. In addition, the previous system (Cerner) was very limited in its ability to provide revenue cycle analytics. As a consequence, the CFCPO had to adjust all remaining outstanding accounts receivables as of June 2019 in Cerner to account for risk of non-collectability. The estimated impact on net collections is approximately \$249 thousand. An additional benefit of outsourcing revenue cycle is an estimated cost savings of \$100 thousand annually by not maintain billing staff in-house.

Also, in Fiscal Year 2019, the CFCPO transferred to the College of Medicine \$6 million more compared to prior year. \$3.6 million of it coming from its cash reserves accumulated in prior

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Management's Discussion and Analysis - Continued

years. It is important to note that transfers to the College of Medicine cannot result in a negative cash balance in the CFCPO.

FINANCIAL ANALYSIS

The following is a summary of the financial performance of the CFCPO, segregated by the Statements of Net Position, Condensed Statements of Revenue, Expenses and Changes in Net Position and Condensed Statements of Cash Flows. The year ended June 30, 2019 represents the seventh full year of operations for the CFCPO.

STATEMENTS OF NET POSITION – ASSETS

	<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	\$ 3,925,770	\$ 6,565,885	\$ (2,640,115)	-40%
Patient accounts receivable, net	533,459	591,281	(57,822)	-10%
HealthARCH accounts receivable, net	9,237	26,995	(17,758)	-66%
Due from affiliates	222,307	79,323	142,984	180%
Inventory	4,849	34,783	(29,934)	-86%
Other assets	181,706	191,337	(9,631)	-5%
TOTAL CURRENT ASSETS	4,877,328	7,489,604	(2,612,276)	-35%
CAPITAL ASSETS:				
Property and equipment, net	221,364	135,272	86,092	64%
OTHER ASSETS				
TOTAL ASSETS	\$ 5,357,496	\$ 7,944,469	\$ (2,586,973)	-33%

Total assets decreased by \$2.6 million, from approximately \$7.9 million in Fiscal Year 2018 to approximately \$5.4 million in Fiscal Year 2019. The decrease is mainly a result of the reduction in cash balance driven by higher transfers to the College of Medicine.

The CFCPO ended Fiscal Year 2019 with approximately \$3.9 million in cash and cash equivalents, down from \$6.5 million in Fiscal Year 2018. This reduction is due to the increased cash transfers from the CFCPO to the College of Medicine. Those transfers were \$6 million more in Fiscal Year 2019 than in Fiscal Year 2018, \$3.6 million coming from prior year cash reserves.

Patient accounts receivable decreased from approximately \$591 thousand in Fiscal Year 2018 to approximately \$533 thousand in Fiscal Year 2019. The remaining balance of \$533 thousand represents the estimated net collectible amounts and is only from the new billing system, eCW. All accounts receivables in Cerner have been adjusted by a bad debt reserve of approximately \$784 thousand, although under normal circumstances only \$249 thousand would have been expected to be collected with the remaining \$535 thousand taken as a contractual adjustment. In addition, in Fiscal Year 2019, management deemed a change necessary in how bad debt reserves are calculated and is now fully reserving all balances related to patient liabilities and self-pay

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Management's Discussion and Analysis - Continued

patients. The impact of this change is an additional \$85 thousand in bad debt reserve. It is important to note that there has been a notable improvement in the revenue cycle performance after outsourcing to the third-party administrator. The days in accounts receivable as of June 2019 was a little over 32 days, net collection ratio is above 95%, and the average charge lag was right at 4 days. For Fiscal Year 2020, we plan to build on these very solid key performance indicators and will focus on further improving revenue cycle analytics, including timely resolution of outstanding credit balances.

Accounts receivable related to HealthARCH decreased from \$27 thousand as of June 2018 to \$9 thousand as of June 2019. No significant risk of uncollectable accounts receivable.

Due from affiliates increased from approximately \$79 thousand in Fiscal Year 2018 to approximately \$222 thousand in Fiscal Year 2019, the majority of this being patient payments that are deposited improperly by government and commercial payers into the university bank account instead of the CFCPO bank account.

Inventory consists of high value medications and decreased from approximately \$35 thousand in Fiscal Year 2018 to \$5 thousand in Fiscal Year 2019. Many of these medications are associated with the Allergy service line, which was being phased out at the end of Fiscal Year 2019.

Other Current Assets decreased from approximately \$191 thousand in Fiscal Year 2018 to approximately \$182 thousand in Fiscal Year 2019. This consists of pre-payments and receivables from work related to Osceola County employee care.

Capital assets increased from approximately \$135 thousand in Fiscal Year 2018 to approximately \$221 thousand in Fiscal Year 2019 because of asset additions. This increase consists of \$50 thousand in IT equipment, \$71 thousand in clinical equipment, \$20 thousand in furniture and \$1,345 in software. This is offset by approximately \$56 thousand in depreciation. The clinical equipment was primarily for Ophthalmology (\$40 thousand), Cardiology (\$14.5 thousand) and Gastroenterology (\$8.5 thousand).

STATEMENTS OF NET POSITION – LIABILITIES

	<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	\$ 372,751	\$ 145,377	\$ 227,374	156%
Accrued expenses	213,628	218,784	(5,156)	-2%
Other accrued liabilities	158,236	114,498	43,738	38%
Unearned revenue	8,078	9,327	(1,249)	-13%
TOTAL CURRENT LIABILITIES	752,693	487,986	264,707	54%
DUE TO AFFILIATES	732,288	-	732,288	100%
TOTAL LIABILITIES	\$ 1,484,981	\$ 487,986	\$ 996,995	204%

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Management's Discussion and Analysis - Continued

Total liabilities increased from approximately \$488 thousand in Fiscal Year 2018 to approximately \$1.5 million in Fiscal Year 2019.

Accounts payable increased from approximately \$145 thousand in Fiscal Year 2018 to approximately \$373 thousand in Fiscal Year 2019. Approximately \$107 thousand of this difference is due to the change in patient accounts receivable credit balances. \$46 thousand is due an increase in vendor accounts payable.

Accrued expenses remained consistent year to year, while other accrued liabilities, which represents liabilities associated with the Medicaid Supplemental Payment program increased by approximately \$44 thousand.

Due to affiliates is approximately \$732 thousand in Fiscal Year 2019, and this is the amount of cash collected in the CFCPO bank account that belongs to the University of Central Florida. This is a timing issue as the deposits associated with these funds were all made in June 2019, \$500 thousand on June 27th. The issue, which has been active for most of Fiscal Year 2019, is that the Veterans Administration (VA) does not recognize the difference in payments going to University of Central Florida and to the CFCPO. The College of Medicine finance team is currently in communication with the VA to correct this problem.

STATEMENTS OF NET POSITION - NET POSITION

	<i>June 30,</i>		<i>Increase/</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
NET POSITION:				
Net investment in capital assets	\$ 221,364	\$ 135,272	\$ 86,092	64%
Unrestricted	3,651,151	7,321,211	(3,670,060)	-50%
TOTAL NET POSITION	<u>\$ 3,872,515</u>	<u>\$ 7,456,483</u>	<u>\$ (3,583,968)</u>	<u>-48%</u>

Total net position of the CFCPO decreased from approximately \$7.5 million in Fiscal Year 2018 to approximately \$3.9 million in Fiscal Year 2019.

CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	<i>Year Ended June 30,</i>		<i>Increase/</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
TOTAL OPERATING REVENUE	\$ 7,262,469	\$ 6,091,038	\$ 1,171,431	19%
TOTAL OPERATING EXPENSES	2,899,184	2,195,069	704,115	32%
OPERATING INCOME	4,363,285	3,895,969	467,316	12%
TOTAL TRANSFERS	(7,947,253)	(1,904,973)	(6,042,280)	317%
INCREASE (DECREASE) IN NET POSITION	(3,583,968)	1,990,996	(5,574,964)	-280%
NET POSITION, BEGINNING OF YEAR	7,456,483	5,465,487	1,990,996	36%
NET POSITION, END OF YEAR	<u>\$ 3,872,515</u>	<u>\$ 7,456,483</u>	<u>\$ (3,583,968)</u>	<u>-48%</u>

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Management's Discussion and Analysis - Continued

The Statements of Revenue, Expenses and Changes in Net Position reflect the financial and operational progress that UCF Health made in Fiscal Year 2019 when compared to Fiscal Year 2018.

Total operating revenue increased from approximately \$6.1 million in Fiscal Year 2018 to approximately \$7.26 million in Fiscal Year 2019. The number of patient visits at UCF Health increased from 31,626 in Fiscal Year 2018 to 41,265 in Fiscal Year 2019. Revenue from other sources such as insurance incentives and professional fees, including the HealthARCH unit, remained flat, changing from \$949 thousand in Fiscal Year 2018 to \$948 thousand in Fiscal Year 2019.

Total operating expenses increased from approximately \$2.2 million in Fiscal Year 2018 to approximately \$2.9 million in Fiscal Year 2019. Medical supplies increased approximately \$226 thousand in Fiscal Year 2019 as activity increased in the Rheumatology, Dermatology and Allergy service lines. Information technology increased approximately \$350 thousand due to the electronic health record conversion and associated one-time implementation and training costs. Professional fees increased by approximately \$160 thousand due to the outsourcing of patient care revenue cycle operations, which started in November of 2018. Supplies and depreciation expenses remained consistent, while marketing expense decreased by approximately \$45 thousand in Fiscal Year 2019.

Overall, the operating income increased by \$467 thousand compared to prior year.

Transfers to the College of Medicine increased from approximately \$1.9 million in Fiscal Year 2018 to approximately \$7.9 million in Fiscal Year 2019. The \$7.9 million covered UCF Health related expenses, paid by the College of Medicine, consisting of \$3.4 million in faculty compensation, \$3.3 million in staff compensation and \$1.2 million in facility lease related expenses. The change in net position was a negative \$3.6 million in Fiscal Year 2019 as compared to a positive \$2 million in Fiscal Year 2018, due to drawing down the cash balance.

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	\$ 4,716,824	\$ 3,361,708	\$ 1,355,116	40%
CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(7,214,965)	(1,904,973)	(5,309,992)	279%
CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(141,974)	(81,505)	(60,469)	74%
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,640,115)	1,375,230	(4,015,345)	-292%

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Management's Discussion and Analysis - Continued

	<i>Year Ended June 30,</i>		<i>Increase/</i>	<i>Percent</i>
	<i>2019</i>	<i>2018</i>	<i>(Decrease)</i>	<i>Change</i>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,565,885	5,190,655	1,375,230	26%
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,925,770	\$ 6,565,885	\$ (2,640,115)	-40%

Net cash from operating activities increased from approximately \$3.4 million in Fiscal Year 2018 to approximately \$4.7 million in Fiscal Year 2019. The increase in operating cash is mainly driven by an increase in patient volume, resulting in an increase in receipts from patients. Cash used in non-capital financing activities went from \$1.9 million in Fiscal Year 2018 to \$7.2 million in Fiscal Year 2019 as transfers increased from the CFCPO to the College of Medicine to pay for employee salaries and facility lease expense. Purchases of capital assets increased from approximately \$82 thousand in Fiscal Year 2018 to approximately \$142 thousand in Fiscal Year 2019. Overall, there was a net change in cash and cash equivalents of approximately negative \$2.6 million in Fiscal Year 2019 compared to an approximately \$1.4 million increase in Fiscal Year 2018.

The financial results for the CFCPO in Fiscal Year 2019 reflect a decrease in net position for the first time in its 8-year history, due to the drawdown of the cash balance. A positive sign in the financial statement is the increase in Operating Income of approximately \$467 thousand from Fiscal Year 2018 to Fiscal Year 2019.

Financial Statements

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Statements of Net Position

	<i>June 30,</i>	
	<i>2019</i>	<i>2018</i>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,925,770	\$ 6,565,885
Patient accounts receivable, net of estimated contractual adjustments and uncollectible accounts of \$1,919,575 in 2019 and \$987,047 in 2018	533,459	591,281
HealthARCH accounts receivable, net of estimated allowance for doubtful accounts of \$11,457 in 2019 and \$11,421 in 2018	9,237	26,995
Due from affiliates	222,307	79,323
Inventory	4,849	34,783
Other assets	181,706	191,337
TOTAL CURRENT ASSETS	4,877,328	7,489,604
CAPITAL ASSETS:		
Property and equipment, net	221,364	135,272
OTHER ASSETS		
	258,804	319,593
TOTAL ASSETS	\$ 5,357,496	\$ 7,944,469
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 372,751	\$ 145,377
Accrued expenses	213,628	218,784
Other accrued liabilities	158,236	114,498
Unearned revenue	8,078	9,327
TOTAL CURRENT LIABILITIES	752,693	487,986
DUE TO AFFILIATES	732,288	-
TOTAL LIABILITIES	1,484,981	487,986
COMMITMENTS AND CONTINGENCIES -		
Notes E and G		
NET POSITION:		
Net investment in capital assets	221,364	135,272
Unrestricted	3,651,151	7,321,211
TOTAL NET POSITION	3,872,515	7,456,483
TOTAL LIABILITIES AND NET POSITION	\$ 5,357,496	\$ 7,944,469

See accompanying notes to financial statements.

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, 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 contractual allowances and discounts)	\$ 7,533,142	\$ 5,285,155
Provision for bad debts	<u>(1,218,467)</u>	<u>(143,595)</u>
TOTAL NET PATIENT SERVICE REVENUE	6,314,675	5,141,560
Other revenue	<u>947,794</u>	<u>949,478</u>
TOTAL OPERATING REVENUE	7,262,469	6,091,038
OPERATING EXPENSES:		
Medical supplies	1,006,461	780,751
Information technology	629,315	280,030
Professional fees	756,029	596,537
Facility	219,404	240,283
Supplies and repairs	101,671	92,856
Marketing	82,693	127,703
Depreciation	55,882	36,549
Other	<u>47,729</u>	<u>40,360</u>
TOTAL OPERATING EXPENSES	<u>2,899,184</u>	<u>2,195,069</u>
OPERATING INCOME	<u>4,363,285</u>	<u>3,895,969</u>
INCREASE IN NET POSITION BEFORE TRANSFERS		
	4,363,285	3,895,969
TRANSFERS:		
Transfers to the University of Central Florida College of Medicine	<u>(7,947,253)</u>	<u>(1,904,973)</u>
TOTAL TRANSFERS	<u>(7,947,253)</u>	<u>(1,904,973)</u>
INCREASE (DECREASE) IN NET POSITION	(3,583,968)	1,990,996
NET POSITION, BEGINNING OF YEAR	<u>7,456,483</u>	<u>5,465,487</u>
NET POSITION, END OF YEAR	<u>\$ 3,872,515</u>	<u>\$ 7,456,483</u>

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, 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	\$ 6,273,251	\$ 5,001,127
Other receipts	967,004	925,959
Payments to suppliers and others	<u>(2,523,431)</u>	<u>(2,565,378)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,716,824	3,361,708
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts from third parties to be paid to the University of Central Florida	732,288	-
Transfers to the University of Central Florida College of Medicine	<u>(7,947,253)</u>	<u>(1,904,973)</u>
CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(7,214,965)	(1,904,973)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	<u>(141,974)</u>	<u>(81,505)</u>
CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(141,974)	(81,505)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,640,115)	1,375,230
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,565,885</u>	<u>5,190,655</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,925,770</u>	<u>\$ 6,565,885</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,363,285	\$ 3,895,969
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	55,882	36,549
Provision for bad debts	1,218,467	143,595
Increase (decrease) in cash due to changes in:		
Patient accounts receivable, net	(1,160,645)	(426,713)
HealthARCH accounts receivable	17,758	20,653
Due to/from affiliates	(142,984)	(143,061)
Inventory	29,934	(10,044)
Other assets	70,420	(404,718)
Accounts payable	227,374	(16,371)
Accrued expenses	(5,156)	151,926
Other accrued liabilities	43,738	114,498
Unearned revenue	(1,249)	(575)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,716,824</u>	<u>\$ 3,361,708</u>

See accompanying notes to financial statements.

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

NOTE A--REPORTING ENTITY

The Central Florida Clinical Practice Organization, Inc. (the CFCPO) is a not-for-profit corporation formed by the physicians at the University of Central Florida College of Medicine (College of Medicine) and activated in October 2011. The CFCPO was formed primarily to serve as a support entity for the College of Medicine's clinical mission, including the faculty practice, UCF Health. The CFCPO performs the billing and collection of professional fees associated with the practice of medicine at UCF Health. UCF Health currently operates two clinic locations. The CFCPO transfers funds to the College of Medicine for use in funding salary reimbursement and other operating expenses for the benefit of the College of Medicine. The CFCPO is an affiliated organization component unit of the University of Central Florida (the University) and is, therefore, included by discrete presentation in the financial statements of that reporting entity.

The CFCPO performs the accounting function and the related billing and collection responsibilities for HealthARCH, an organization that advances resources to support healthcare professionals in transforming and continuously improving healthcare delivery, the patient experience and health outcomes while reducing the cost of healthcare. HealthARCH services are primarily provided to entities that are not affiliated with the CFCPO or the College of Medicine. HealthARCH revenue and related accounts receivable are not directly related to patient care services and as such are recognized separately from net patient service revenue and patient accounts receivable in the accompanying financial statements.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The CFCPO 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 CFCPO'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 CFCPO 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 CFCPO'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

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

when all applicable eligibility requirements, including time requirements, are met. The CFCPO follows GASB standards of accounting and financial reporting.

Cash and Cash Equivalents: The CFCPO considers all highly liquid investments, including cash and interest-bearing deposits with maturities of three months or less when purchased, as cash equivalents for purposes of reporting cash flows.

Net Patient Service Revenue and Receivables: UCF Health's patient service revenue is recognized by the CFCPO 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 UCF Health 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. The estimate considers the age of the receivables and other criteria such as payer classifications.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated 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 UCF Health's established billing rates and estimated reimbursement from Medicare, Medicaid, and other third-party payment programs. The CFCPO does not require collateral or other security for patient accounts receivable. UCF Health routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Inventory: Inventory consists primarily of medical and general store supplies, and is stated at lower of cost (first-in, first-out) or fair market value.

Capital Assets: The CFCPO's capital assets are reported at historical cost. Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated utilizing the straight-line method over the following estimated service lives: 3-10 years for furniture, equipment, computer hardware and computer software. Maintenance and repair costs are expensed as incurred. The CFCPO reviews the carrying value of capital assets if facts and circumstances indicate that recoverability may be impacted. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The CFCPO did not experience any prominent events or changes in circumstances affecting capital assets which would require determination as to whether impairment of a capital asset has occurred during the year ended June 30, 2019.

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Estimated Liability for Refunds: If applicable, an estimated liability is provided for potential refunds to UCF Health's patients and third-party payers.

Net Position: Net position of the CFCPO is classified in components. *Net investment in capital assets* consists of property and equipment net of accumulated depreciation and reduced by the remaining balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*. The CFCPO had no *restricted net position* at June 30, 2019 and 2018.

Operating Revenue and Expenses: The CFCPO'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 the College of Medicine providing healthcare and education services and advancing resources to healthcare professionals. Other sources of revenue, expenses, gains and losses are reported as nonoperating. Operating expenses are all expenses incurred by the CFCPO for UCF Health to provide healthcare and education services and advance resources to healthcare professionals.

Income Taxes: The CFCPO 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 and there were no uncertain tax positions as of 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 and allowances for uncollectible accounts are particularly susceptible to material change in the near term. Future results could differ from the current estimates.

Reclassifications: Certain 2018 amounts have been reclassified to conform with the 2019 presentation in the accompanying financial statements.

NOTE C--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 the treatment of patients in the CFCPO operated clinics. Net patient service revenue is revenue from professional fees charged to individual patients and funded through third party payers and private patient payments based on established reimbursement rates. A reconciliation of the net patient service revenue to direct revenue from

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

patient care, as presented in the statements of revenue, expenses and changes in net position for the years ended June 30, 2019 and 2018, is as follows:

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
Gross direct charges from patient care	\$ 16,775,254	\$ 11,971,779
Less: Contractual adjustments	(9,242,112)	(6,686,624)
Bad debt	(1,218,467)	(143,595)
Total net patient service revenue	<u>\$ 6,314,675</u>	<u>\$ 5,141,560</u>

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

	<i>As of June 30,</i>	
	<i>2019</i>	<i>2018</i>
Third-party payers	\$ 7,373,504	\$ 5,149,579
Patients, primarily self insured	159,638	135,576
	<u>\$ 7,533,142</u>	<u>\$ 5,285,155</u>

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

Medicare: 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). The CFCPO received \$43,738 and \$114,498 in net proceeds from the program during the years ended June 30, 2019 and June 30, 2018, respectively. Subject to not meeting certain Program provisions, the CFCPO anticipates refunding those net proceeds back to the Program. Accordingly, net patient service revenue for the years ended June 30, 2019 and 2018 does not include an amount related to the Program and other accrued liabilities in the statements of net position includes \$158,236 and \$114,498 associated with the Program as of June 30, 2019 and 2018, respectively. No amount was due to the CFCPO under the Program as of June 30, 2019 and 2018.

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, 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, health maintenance organizations, and preferred provider organizations (PPOs). The bases for payment to the College of Medicine vary. Many of the PPO arrangements are based on the third-party's fee schedule.

Amounts earned under contractual arrangements with the Medicare and Medicaid programs are subject to review and final determination by 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, if any. In addition, participation in these programs subjects the CFCPO to significant rules and regulations. Failure to adhere to such regulations could result in fines, penalties or expulsion from the programs.

The CFCPO's net patient accounts receivable consists primarily of amounts to be funded through third-party payer and private payments. Net patient accounts receivable as of June 30, 2019 and 2018 are summarized as follows:

	<i>As of June 30,</i>	
	<i>2019</i>	<i>2018</i>
Patient accounts receivable based on established charges	\$ 2,453,034	\$ 1,578,328
Estimated contractual adjustments	(876,548)	(874,361)
Estimated allowance for bad debts	(1,043,027)	(112,686)
Patient accounts receivable, net	<u>\$ 533,459</u>	<u>\$ 591,281</u>

Accounts receivable are reduced by an allowance for bad debts. Based on historical experience, the CFCPO estimates the allowance and provision for bad debts based upon a percentage of the patient accounts receivable by aging category.

The CFCPO's estimated allowance for bad debts increased from June 30, 2018 to 2019 primarily due to reserves established for aged accounts receivable associated with the CFCPO's legacy accounts receivable billing system and the increased volume in patients seen at UCF Health's two clinic locations.

NOTE D--CAPITAL ASSETS

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

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, 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>
Capital assets:					
Furniture, equipment and computers	\$ 769,252	\$ 141,974	\$ -	\$ -	\$ 911,226
Accumulated depreciation:					
Furniture, equipment and computers	633,980	55,882	-	-	689,862
Total capital assets, net	<u>\$ 135,272</u>	<u>\$ 86,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 221,364</u>

	<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:					
Furniture, equipment and computers	\$ 687,747	\$ 81,505	\$ -	\$ -	\$ 769,252
Accumulated depreciation:					
Furniture, equipment and computers	597,431	36,549	-	-	633,980
Total capital assets, net	<u>\$ 90,316</u>	<u>\$ 44,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,272</u>

NOTE E--OPERATING LEASES

The CFCPO leases certain equipment under operating lease agreements. Rent expense associated with the leases was approximately \$71,400 and \$63,500, respectively, for the fiscal years ended June 30, 2019 and 2018. 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:

<u><i>Year Ending June 30,</i></u>	
2020	\$ 21,868
2021	15,771
2022	13,894
Total minimum payments required	<u>\$ 51,533</u>

NOTE F--RELATED-PARTY TRANSACTIONS

The University historically provides financial support to the CFCPO in the event that cash revenues do not exceed cash expenses. The CFCPO did not receive or require contributions from the University during the fiscal years ended June 30, 2019 and 2018. The CFCPO transfers funds to the College of Medicine to assist with funding for salary supplements and other related costs

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

for the benefit of the faculty and quality of education of the College of Medicine based on available funding. During 2019 and 2018, the CFCPO was required to transfer funds to the College of Medicine for various salary reimbursement and other operating expenses in the amount of \$7,947,253 and \$1,904,973, respectively.

As of June 30, 2019 and 2018, \$222,307 and \$79,323, respectively, was due from the University's Student Health Clinic related to funds being passed through UCF Health to the CFCPO from third party insurance payers.

At June 30, 2019, \$732,288 was due to the College of Medicine primarily related to third party payer payments directed to the CFCPO that belong to the College of Medicine.

NOTE G--COMMITMENTS AND CONTINGENCIES

Professional Liability: The University of Central Florida Board of Trustees, acting as the College of Medicine, obtains general and professional liability protection from the University of Central Florida College of Medicine Self-Insurance Program (the Self-Insurance Program), a self-insurance mechanism authorized by the Florida Board of Governors pursuant to Section 1004.24, Florida Statutes.

The Self-Insurance Program affords protection to the University of Central Florida Board of Trustees for claims and actions, as described in Section 768.28, Florida Statutes, including any legislative claim bill that, in combination with the waiver of immunity limits described in Section 768.28, Florida Statutes, do not exceed \$1,000,000 per claim.

In the event the College of Medicine faculty physicians and 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, in the amount of \$1,000,000 per claim.

The CFCPO is provided protection by the Self-Insurance Program. No amounts have been accrued for incurred but not reported claims as the CFCPO 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

CENTRAL FLORIDA CLINICAL PRACTICE ORGANIZATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive healthcare insurance legislation, *Patient 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 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.

Management believes the CFCPO is currently in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or not asserted at this time.

Credit Risk: Certain financial instruments, primarily cash, potentially subject the CFCPO to concentrations of credit risk. The CFCPO maintains its cash with what it believes to be a high-quality financial institution and thus limits its credit exposure. At times, the cash maintained in this institution exceeds federally insured limits. The CFCPO had amounts in excess of federally insured limits of \$3,759,849 and \$6,352,327 at June 30, 2019 and 2018, respectively.

NOTE H--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.



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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
Central Florida Clinical Practice Organization, 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 Central Florida Clinical Practice Organization, Inc. (the CFCPO) (a component unit of the University of Central Florida) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the CFCPO's basic financial statements, and have issued our report thereon dated September 13, 2019.

Internal Control Over Financial Reporting

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

PYA, PC

Tampa, Florida
September 13, 2019