



Item: AF: I-1d

**AUDIT AND FINANCE COMMITTEE**

**Tuesday, March 15, 2016**

**SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS OF FAU DIRECT SUPPORT ORGANIZATIONS: FAU CLINICAL PRACTICE ORGANIZATION FINANCIAL REPORT FOR THE PERIOD ENDED JUNE 30, 2015.**

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**PROPOSED COMMITTEE ACTION**

Information only.

**BACKGROUND INFORMATION**

The audited financial statements of the FAU Clinical Practice Organization (FAU CPO) are presented to keep the Board of Trustees informed about the financial status of the Corporation. The audited financial statements are for the period ended June 30, 2015 and were presented to the FAU CPO Board of Directors on November 16, 2015.

**IMPLEMENTATION PLAN/DATE**

Not applicable.

**FISCAL IMPLICATIONS**

Not applicable.

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**Supporting Documentation:** FAU CPO Financial Report for the Year Ended June 30, 2015.

**Presented by:**

Ms. Dorothy Russell, Vice President for Financial Affairs and CFO  
Dr. David Bjorkman, Dean - College of Medicine

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**FAU Clinical Practice  
Organization, Inc.  
(A component unit of  
Florida Atlantic University)**

Financial Report  
For the Year Ended June 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
FAU Clinical Practice Organization, Inc.  
Boca Raton, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of FAU Clinical Practice Organization, Inc. (the "Organization"), a component unit of Florida Atlantic University, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization, as of June 30, 2015, and the respective changes in financial position and its cash flows thereof for the year 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2015, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida  
November 6, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the FAU Clinical Practice Organization, Inc., a component unit of Florida Atlantic University (thereafter "University") for the fiscal year ended June 30, 2015, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the FAU Clinical Practice Organization, Inc.'s (the "Organization") management. Pursuant to GASB Statement No. 35, the Organization's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

### **FINANCIAL HIGHLIGHTS**

The Organization was incorporated on May 3, 2011 as a not-for-profit organization under Chapter 617, Florida Statutes, and is a component unit of Florida Atlantic University, a public university in the State university system. It was established to promote and support medical education, patient care, research, and the administration and distribution of funds, exclusively for the support of the mission and objectives of the University, its Charles E. Schmidt College of Medicine, its Christine E. Lynn College of Nursing and other participating colleges or units within the University, in accordance with the University's College of Medicine Faculty Practice Plan and other faculty practice plans adopted by the University pursuant to Florida Board of Governor's Regulation 9.017. The Board of Directors is the governing body of the Organization.

The Organization's revenues totaled approximately \$803 thousand for the 2014-2015 fiscal year, representing medical staffing and patient service revenues. Expenses totaled approximately \$682 thousand for the 2014-2015 fiscal year, representing operating expenses associated with the direct operations of the Organization. Other operating expenses are administrative expenses of the Organization, such as audit fees and supplies.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, financial statements and notes thereto, and other required supplemental information or requests for additional financial information should be addressed to the Vice President for Financial Affairs, FAU Clinical Practice Organization, 777 Glades Road, Boca Raton, Florida 33431.

**FAU Clinical Practice Organization, Inc.**  
**Statement of Net Position**  
**June 30, 2015**

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**Assets:**

Current Assets:

Cash in bank	\$	452,149
Accounts receivable, less allowance for doubtful accounts		122,947
Due from University		<u>7,552</u>
<b>Total assets</b>	\$	<u><u>582,648</u></u>

**Liabilities:**

Current Liabilities:

Accounts payable	\$	9,900
Unearned revenue		<u>39,144</u>
<b>Total liabilities</b>		<u>49,044</u>

<b>Total unrestricted net position</b>		<u>533,604</u>
<b>Total liabilities and net position</b>	\$	<u><u>582,648</u></u>

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

**FAU Clinical Practice Organization, Inc.**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2015**

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**Operating Revenues:**

Patient service revenue, net of contractual adjustments and provision for bad debts	\$ 587,097
Medical staffing revenue	<u>216,348</u>
<b>Total revenues</b>	<u><u>803,445</u></u>

**Operating Expenses:**

Personnel costs	564,955
Contracted services	65,748
Other expenses	44,244
Insurance	<u>7,055</u>
<b>Total operating expenses</b>	<u><u>682,002</u></u>

<b>Operating income</b>	<u><u>121,443</u></u>
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<b>Change in net position</b>	121,443
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**Net Position:**

Beginning of year	<u>412,161</u>
End of year	<u><u>\$ 533,604</u></u>

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



**FAU Clinical Practice Organization, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2015**

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**Cash Flow From Operating Activities:**

Cash received from customers and patients	\$ 926,860
Cash paid to suppliers	<u>(691,968)</u>
<b>Net cash provided by operating activities</b>	<b>234,892</b>

**Cash:**

Beginning of year	217,257
End of year	<u>\$ 452,149</u>

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities:**

Operating income	\$ 121,443
Decrease in accounts receivable	59,077
Decrease in due from University	14,828
Increase in accounts payable	400
Increase in unearned revenue	<u>39,144</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 234,892</u></b>

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

**Note 1. Description and Nature of Organization and Significant Accounting Policies**

On May 3, 2011, the FAU Clinical Practice Organization, Inc. (the "Organization") was incorporated as a not-for-profit organization under Chapter 617, Florida Statutes. The Organization is a component unit of the Florida Atlantic University (the "University"), a part of the State university system of public universities. It was established to promote and support medical education, research, patient care, and the administration and distribution of funds, exclusively for the support of the mission and objectives of the University, its Charles E. Schmidt College of Medicine, its Christine E. Lynn College of Nursing and other participating colleges or units within the University, in accordance with the University's College of Medicine Faculty Practice Plan and other faculty practice plans adopted by the University pursuant to Florida Board of Governor's Regulation 9.017. The governing body of the Organization is its Board of Directors (the "Board").

The Board is comprised of a maximum of eleven (11) directors who are responsible for managing, supervising and controlling the business, property, affairs and funds of the Organization. In the event of dissolution of the Organization, all remaining assets, after payment of Organization's debts, shall be for use only by the College of Medicine, the College of Nursing, or other participating colleges or units within the University, or if the University has ceased to exist, to other entities that are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as directed by the Board of Governors of the State of Florida. Consequently, the Organization meets the criteria for inclusion in the University's reporting entity as a component unit.

A summary of the Organization's significant accounting policies follows:

**Basis of presentation:** The Organization is engaged in a single business-type activity whose operations are primarily supported by user fees and charges. The principal statements were prepared in accordance with Government Accounting Standards Board ("GASB") codification section 2100, which establishes standards for defining and reporting of the financial reporting entity. The Organization maintains a proprietary fund which reports transactions related to activities similar to those found in the private sector. As such, the Organization presents only the statements required of enterprise funds, which include the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

The statement of net position reports assets plus deferred outflows of resources, liabilities plus deferred inflows of resources; and the difference between them as net position. Net position represents the residual interest in the Organization's assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Organization's net position is unrestricted as there are no restrictions on the residual interest in the Organization's assets.

The accounting and financial reporting treatments applied to a fund are determined by its measurement focus. The Organization's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**Note 1. Description and Nature of Organization and Significant Accounting Policies  
(continued)**

**Accounting 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, liabilities, deferred inflows/outflows, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes:** The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

**Date of Management Review:** Management has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 6, 2015, the date the financial statements were available to be issued.

**Cash:** For purposes of the statements of cash flows, cash includes cash on deposit and cash on hand at the statement date.

**Unearned Revenue:** Unearned revenue represents resources received before revenue has been earned, which includes grant agreements. Unearned revenue as of June 30, 2015 was approximately \$40,000.

**Expenses:** Operating expenses are administrative expenses of the University. The University also charges for personnel and administrative support (exclusive of overhead) provided to the Organization, to aid in its operations. Bad debt expense is recorded for accounts receivable balances not considered collectible and such amounts are netted against the related revenues on the financial statements.

**Revenues:**

Medical Staffing Revenue

The University has entered into clinical practice service agreements with third party medical health care facilities (hereafter "facilities"), whereby the University provides the facilities with medical staffing (doctors, nurses, etc.) to oversee certain educational, administrative, and clinical activities at the facilities, as determined by the parties and pursuant to the clinical practice service agreements. In accordance with the clinical practice service agreements, the facilities pay the University a fee for the medical staffing and services provided. The fees earned from these contracts are assigned to and recognized by the Organization. Revenues are recorded in the period that staffing and services are provided to the facilities, regardless of the timing of the related cash flows.

**Note 1. Description and Nature of Organization and Significant Accounting Policies  
(continued)**

This fiscal year, the University on behalf of the Community Health Clinic (“CHC”) received medical staffing revenues from The Lord’s Place Inc. (agreement effective August 1, 2014). The College of Nursing (“CON”) also entered into an intra-FAU service and affiliation agreement (effective August 18, 2014) with Karen Slattery Educational Research Center for Child Development (“Slattery”). In accordance with the Slattery agreement, the CON receives fees for nurse practitioner medical staffing services provided.

Effective July 1, 2014, the University on behalf of the College of Medicine (“COM”) entered an agreement with Inpatient Consultants of Florida, Inc. (“IPC”) to provide medical staffing services. The University also entered into agreements/amendments on behalf of the COM with Bethesda Hospital East to provide medical resident staffing services at Bethesda’s transitions of care clinic and continuity of care clinic. These agreements/amendments were subsequently amended to include Genesis Community Health, Inc. (effective May 1, 2015). The COM invoices IPC and Bethesda Hospital East for all medical staffing services rendered in accordance with these agreements.

The University’s medical staffing revenues, for prior year agreements and those entered in fiscal year 2015 as aforementioned, totaled \$216,348 for the fiscal year ended June 30, 2015 (\$164,392 and \$51,956 for the College of Medicine and College of Nursing, respectively).

**Net Patient Service Revenue**

The University operates and provides medical services to patients at its Memory and Wellness Center and Community Health Center. Patient service revenues earned from operations are recorded based upon established billing rates less allowances for contractual adjustments. Revenues are recorded in the period the services are rendered and are based upon the estimated amounts due from the patients and third-party payors, including federal and state agencies (under Medicare and Medicaid programs), managed care health plans, commercial insurance companies, other community payer sources and employers. Estimates of contractual allowances represent the difference between the University’s established rates for services and amounts reimbursed by third-party payors based upon the payment terms specified in the related contractual agreements. Third-party payors’ contractual payment terms are generally based upon prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem arrangements, and other payment formulas.

This fiscal year, the University on behalf of CHC entered into multiple agreements related to its patient service revenue activities. The funds received under these agreements are either applied as payments against outstanding patient accounts or are recorded as revenue if not applied to patient accounts through Phyllis (the contracted billing company).

The Organization’s patient service revenue (net of contractual adjustments and provisions for bad debts) was \$587,097 for the year ended June 30, 2015.

**FAU Clinical Practice Organization, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015**

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**Note 1. Description and Nature of Organization and Significant Accounting Policies (continued)**

The components of net patient service revenue for the year ended June 30, 2015 are summarized as follows:

	<b>Patient Service Revenue</b>			<b>Total</b>
	<b>Memory and Wellness Center (MWC)</b>	<b>Community Health Center (CHC)</b>	<b>Clinical Activities Unrelated to MWC or CHC</b>	
Patient service revenue, gross	\$ 851,767	\$ 619,819	\$ 5,667	\$ 1,477,253
Contractual adjustments	(440,488)	(414,002)	-	(854,490)
	411,279	205,817	5,667	622,763
Provisions for bad debts	(35,666)	-	-	(35,666)
<b>Patient service revenue, net</b>	<b>\$ 375,613</b>	<b>\$ 205,817</b>	<b>\$ 5,667</b>	<b>\$ 587,097</b>

**Medicare:** Services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The University is reimbursed on an interim basis at a tentative rate, which is recalculated and adjusted to actual claims, with final settlement determined after submission of annual cost reports by the University and audits thereof by the Medicare fiscal intermediary. Retroactive adjustments for cost report settlements are reported in the periods when final settlements are determined.

**Medicaid:** Services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The University is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the University and audits thereof by the Medicaid fiscal intermediary. Retroactive adjustments for cost report settlements are reported in the periods when final settlements are determined.

**Other payers:** The University has also entered into payment arrangements with certain commercial insurance carriers and other community payer sources. The basis for payment to the University under these arrangements includes prospectively determined rates per discharge and discounts from established charges. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

**Accounts Receivable:**

Accounts receivable as of June 30, 2015 are comprised of the following:

**Medical staffing:** The balance represents charges for medical staffing services provided prior to the end of the fiscal year but not yet collected. Allowances for doubtful accounts are recorded based on management's best estimate as of the fiscal year end considering type, age, collection history, and other factors deemed appropriate. At fiscal year-end, \$66,678 was due from third parties for medical staffing services provided.

**Note 1. Description and Nature of Organization and Significant Accounting Policies  
(continued)**

**Patient receivables:** Patient receivables, where a third party is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payers.

Accounts receivable is presented net of allowance for doubtful accounts. In evaluating the collectability of accounts receivable, management analyzes its activity and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For example, an allowance would be calculated for expected uncollectible accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely.

This fiscal year, the MWC wrote off the portion of their accounts receivable balance (\$17,908) serviced by the Practice Partners billing company. MWC transitioned to Phyllis billing company in December 2013; therefore, management wrote off the portion of their accounts receivable balance held by Practice Partners. The CHC also wrote off their allowance for doubtful accounts balance (\$785) from fiscal year 2014. The CON's other clinical service activities did not maintain a material allowance for doubtful accounts nor were any significant write-offs incurred.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), management records a provision for bad debts in the period of service on the basis of its past experience. Management handles receivables associated with self-pay patients in two different manners depending on which center the patient was seen. For the Memory and Wellness Center, an allowance for doubtful accounts was recorded for the portion of the patient accounts serviced by Phyllis that were more than one year old, \$17,758. For the Community Health Center, the majority of patients (65% "self-pay") seen are unable or unwilling to pay the portion of the bill for which they are financially responsible. Effective October 1, 2014, the University, on behalf of the Community Health Center, entered into a one-year funding agreement with the Health Care District of Palm Beach County (the "District") in which the District provides funding (a maximum of \$70,000) to the Community Health Center for providing services to uninsured patients. As a result of this funding agreement, the Community Health Center's allowance for doubtful accounts balance was immaterial and the funds received from the District were applied against patient accounts.

**FAU Clinical Practice Organization, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015**

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**Note 1. Description and Nature of Organization and Significant Accounting Policies (continued)**

Additionally, this fiscal year the College of Medicine set up an allowance for doubtful accounts, (medical staffing) \$13,226, for the portion of their outstanding accounts receivable balances that were more than one year old. The allowance for doubtful accounts totaled \$30,984 for the fiscal year ended June 30, 2015.

At the end of this fiscal year, \$69,495 was due from third party payers and self-pay patients for medical services provided. The components of patient receivables at June 30, 2015 are summarized below. A reserve for contractual adjustments was not maintained this fiscal year because contractual adjustments directly offset patient service revenue as recorded each month.

	Memory and Wellness Center (MWC)	Community Health Center (CHC)	Total
Accounts receivable, gross	\$ 61,096	\$ 26,157	\$ 87,253
Reserve for uncollectible accounts	(17,758)	-	(17,758)
<b>Total</b>	<b>\$ 43,338</b>	<b>\$ 26,157</b>	<b>\$ 69,495</b>

Patient service revenue and net patient service accounts receivable as of and for the year ended June 30, 2015, included amounts from the following payers for each medical center:

Payers	Memory and Wellness Center (MWC)	Community Health Center (CHC)	Clinical Activities Unrelated to MWC or CHC
Medicare	64%	3%	0%
Medicaid	0%	13%	0%
Insurance	14%	19%	0%
Self-pay	22%	65%	0%
Aid to Victims of Domestic Abuse (AVDA)	0%	0%	100%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Note 2. Cash**

**Custodial credit risk:** Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. It is the Organization's policy to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default. Under Florida statutes, Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all qualified public depositories to deposit with the Treasurer or another banking institution, eligible collateral equal to between 50% and 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held.

**Note 2. Cash (continued)**

The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, corporate bonds) to public deposits is dependent upon the depository institution's financial history and its compliance with Florida Statutes, Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

**Note 3. Related Party Transactions**

At June 30, 2015, the net amount due from the University totaled \$7,552, representing \$8,828 in revenue/deposits pending to be transferred and \$1,276 in expenses paid on behalf of the Organization pending reimbursement.

**Note 4. Risk Management**

The Organization is a protected entity under the Florida Atlantic University College of Medicine Self-Insurance Program.