



Financial Statements
(and Other Information)

***University of Florida Jacksonville Physicians, Inc.
(A Component Unit of the University of Florida)***

Years Ended June 30, 2019 and 2018

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, 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
University of Florida Jacksonville Physicians, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of University of Florida Jacksonville Physicians, Inc. (the Company) (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 Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the University of Florida Jacksonville Physicians, 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 4 to 17 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 Information: Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Company's basic financial statements. The Statements of Revenue, Expenditures and Changes in Net Position of the Miscellaneous Gifts and Grants Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

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

DYA, P.C.

Tampa, Florida
September 18, 2019

Management's Discussion and Analysis

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) of the University of Florida Jacksonville Physicians, Inc. (UFJP) (the Company) is intended to provide an overview of the 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.

As an approved practice plan of the University of Florida College of Medicine (COM) as outlined in Florida Board of Governors' Regulation 9.017, and as a health service support organization as outlined in Florida Board of Governors' Regulation 9.011, the primary mission of the Company is to bill and collect professional fees from the clinical practice of University of Florida (UF) (the University) physicians in order to fund and promote the educational, clinical and research missions, and support the clinical activities, of the Jacksonville campus of the COM.

OVERVIEW

The fiscal year 2019 financial results of the overall Jacksonville physicians' practice plan was a deficit of \$(1,928,075) and includes the \$(2,238,588) decrease in net position of UFJP and the \$310,513 gain of the Miscellaneous Gifts and Grants Fund (MG&G) outlined in the supplemental schedule. This represents over a \$1.2 million positive variance from budget, as the fiscal year 2019 budget was a deficit of \$(3,146,000) for the overall practice plan. While there were a number of factors behind the positive bottom line budget variance that will be outlined in the following sections, the most significant factor was the receipt of funding through the low-income pool (LIP) program in the amount of \$20.9 million. The upper payment limit (UPL) funding for the year was equal to the planned \$35 million. However, these factors were offset by the negative budget variances of reduced hospital funding of \$6.4 million, additional accrued physician incentives of \$5.1 million, additional physician call/extra duty pay of \$3.2 million and net operational budget variances of \$6 million. The Program Support Accounts and Dean's Fund contributed a positive \$939,000 budget variance for the year.

Total operating revenue for FY 2019 increased by \$10,297,529 or 3.6% from prior year. Patient service revenue net of provision for contractual adjustments and uncollected amounts surpassed last year's level by \$11,718,316, or 5%. Gross clinical revenue excluding charity increased by 5.7% or \$31.9 million with increases occurring in surgeries, office visits and ER visits. Improved payor mix with an increase in commercial volume also supported the increase in operating revenue. Pay for performance, value based and shared savings programs' receipts were \$4,458,000 for fiscal year 2019, down slightly from the previous year. Charity gross clinical revenue decreased 14.8% from prior year, but did not impact the net received as charity reimbursement is under a fixed payment method with UF Health Jacksonville. Revenue recorded for the UPL program that supplements Medicaid payments in return for enhanced access was equal to plan while the LIP funding was more than planned as mentioned in the previous paragraph.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Total operating expenses including transfers to cover physician salaries and benefits increased from last year by \$16,446,494 or 5.9%. Of that total, a portion was from increased number of physicians and staff, salary increases, increase in call/extra duty pay and an increase in other operating expenses including lease expense and clinical supplies.

Regarding changes in the statement of net position, total assets exceeded the prior year by \$7,059,263 or 7.5%. The largest changes were in cash, patient receivables, due from Shands Jacksonville Medical Center, Inc. and construction in progress. Cash and cash equivalents decreased from the prior year as a result of the delay in the receipt of the final Shands Jacksonville funding, delay in UPL funding and UFJP providing a short-term loan to Shands Jacksonville in the amount of \$7.3 million. Included in the cash and cash equivalents is the UFJP balance of \$19.6 million in the State of Florida Special Purpose Investment Account (SPIA). Patient accounts receivable, net decreased as a result of an increase in the reserve for bad debts. Due from Shands Jacksonville Medical Center, Inc. increased as a result of the delayed Shands Jacksonville funding and the short-term loan. Construction in Progress increased as a result of the construction of an ambulatory medical services building in Nassau County, Florida. New 2019 tax-exempt notes are being used to fund the building construction while the land was purchased by UFJP in 2017.

Current liabilities increased by \$4,986,983 and the categories with the greatest increase were accounts payable and accrued compensation. Accounts payable increased as a result of accrued construction invoices and accrued compensation increased as a result of increased payroll costs related to increased number of employees and raises. Long term debt increased due to the issuance of new 2019 tax-exempt, bank-held notes used to refinance the outstanding balance of the Series 2002 Bonds and fund the construction of the new medical services building in Nassau County. The Series 2019 Notes total approved amount is \$30 million with construction draws for an estimated 12-month period. The interest rate for the Series 2019 Notes is a variable rate during the construction draw period and a fixed rate swap effective for 15 years thereafter. The outstanding principal balance of the Series 2019 Notes on June 30, 2019 was \$8,005,868.

FINANCIAL ANALYSIS

The basic financial statements making up the 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 Company 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. For a further discussion of accounting and reporting policies, see Note B to the financial statements.

The statements of net position are a reflection of the financial health of the Company at the point of close of the fiscal year.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Table 1 - Condensed Statements of Net Position - Assets

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 29,548,092	\$ 38,743,604	\$ (9,195,512)	-23.7%
Patient accounts receivable, net	10,063,988	11,952,458	(1,888,470)	-15.8%
Other receivables	13,943,883	13,626,844	317,039	2.3%
Prepaid expenses and other current assets	2,266,968	1,804,819	462,149	25.6%
Due from related parties	18,592,945	7,819,144	10,773,801	137.8%
TOTAL CURRENT ASSETS	74,415,876	73,946,869	469,007	0.6%
CAPITAL ASSETS, NET	26,339,206	19,748,950	6,590,256	33.4%
TOTAL ASSETS	\$ 100,755,082	\$ 93,695,819	\$ 7,059,263	7.5%

The growth in assets this year at 7.5% is greater than last year's increase of 2.2%. Cash and cash equivalents at \$29,548,092, remains the largest asset category. However, the current balance reflects a decline of \$9,195,512 from last year and represents a 23.7% decrease. This category is now 29.3% of total assets. A number of factors contributed to this decrease and will be discussed in detail in the statement of cash flows section. There are three major items of note. First, payments from Shands Jacksonville were not received for the last several months of the year, impacting the cash balance negatively by about \$3.5 million more than prior year. These payments were subsequently received in the early months of fiscal year 2020. Second, a short-term loan of \$7.3 million was made to Shands Jacksonville near the end of the fiscal year. This was repaid in the first week of fiscal year 2020. Third, the Company also had significant capital asset purchases, excluding the construction of the Wildlight building (to be discussed later), for cash, this fiscal year of nearly \$3.1 million.

Table 2 - Capital Assets

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
CAPITAL ASSETS, NET:				
Land and improvements	\$ 3,748,493	\$ 3,748,493	\$ -	0.00%
Building	631,928	715,752	(83,824)	-11.71%
Equipment	5,180,440	5,075,650	104,790	2.06%
Computer software	3,369,475	5,181,869	(1,812,394)	-34.98%
Leasehold improvements	4,653,025	4,593,937	59,088	1.29%
Construction in progress	8,755,845	433,249	8,322,596	1920.97%
CAPITAL ASSETS, NET	\$ 26,339,206	\$ 19,748,950	\$ 6,590,256	33.37%

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Management's Discussion and Analysis - Continued

The Company's investment in capital assets, net of accumulated depreciation and amortization, remains the company's second largest asset category. At a 2019 fiscal year-end balance of \$26,339,206 the change from last year is an increase of \$6,590,256 or 33.4%, as asset additions were more than depreciation and amortization expense in the fiscal year. Approximately \$11,340,000 in capital assets were acquired during fiscal year 2019, offset by annual depreciation and amortization of \$4,749,340 as well as disposals. The composition of assets currently in use continues to be comprised largely of equipment and software to operate the information system network with revenue cycle and electronic health records (EHR) and of medical equipment used in outpatient clinics. However, the largest net capital asset category at the end of fiscal year 2019 is Construction in Progress, at \$8,755,845. The majority of this represents the costs paid thus far for the new ambulatory medical services building under construction in the Wildlight community of Nassau County, Florida (discussed in the Economic Outlook section). A number of items lead to increases in the other categories. The practice plan opened a new Family Medicine and Pediatric center in the Nocatee development in St. Johns County, Florida in April 2019. Almost \$640,000 was spent on leasehold improvements, medical equipment and office furniture and equipment for this site. Approximately \$126,000 was spent for physical improvements, such as painting, flooring, etc., at various off campus clinic locations, as well as \$71,000 for building improvements at the Company owned facility housing the Lem Turner clinic. Additional capital assets of \$71,000 were purchased for the sites for medical equipment and office furniture and equipment. Several large acquisitions were made for the medical departments as well. The department of Pathology purchased \$511,000 of sequencing equipment. The department of Orthopaedics spent \$302,000 for new equipment and renovations to support expanded services. The department of Urology purchased \$168,000 worth of equipment to support expected growth with a new department chair.

Information system related expenditures added this year include approximately \$411,000 of payments to Epic for infrastructure upgrades and licenses. A little over \$170,000 was spent on other IT related items such as servers, wireless access points, UPS devices, etc. Several administrative spaces were renovated at a cost of \$62,000 for leasehold improvements and furniture.

As a reminder, the cost of information system technology to connect the UF satellite clinics, provide appointment scheduling, point of service functions and the EHR resides on the Company's books. This is an enterprise system that provides an EHR, revenue cycle and ancillary system software for hospitals and physicians that interface seamlessly. The amount being recorded on the Company's books is an allocation of costs incurred based on appropriate metrics with the assumption that software and support infrastructure will benefit all entities on both campuses (Jacksonville and Gainesville). A detail of additions, retirements and accumulated depreciation is provided in Note F.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Table 3 - Patient Accounts Receivable

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
Beginning accounts receivable	\$ 53,160,112	\$ 53,371,349	\$ (211,237)	-0.40%
Charges	597,589,817	565,658,254	31,931,563	5.65%
Payments	(228,469,617)	(216,533,224)	(11,936,393)	5.51%
Write-off for contractual adjustments and bad debts	(368,159,678)	(349,336,267)	(18,823,411)	5.39%
Patient accounts receivable	54,120,634	53,160,112	960,522	1.81%
Reserve for contractual adjustments and bad debts	(44,056,646)	(41,207,654)	(2,848,992)	6.91%
Total patient accounts receivable, net	<u>\$ 10,063,988</u>	<u>\$ 11,952,458</u>	<u>\$ (1,888,470)</u>	<u>-15.80%</u>

Patient accounts receivable continues to become a smaller portion of the Total Assets. Net of estimated uncollectibles and contractual adjustments, the balance in this category dropped by \$1,888,470 or 15.8% to \$10,063,988 at the end of fiscal year 2019. Gross patient service charges excluding the City Contract charity services grew by 5.7% over last year to \$597,589,817. Direct patient service charges, excluding UPL and LIP, grew by over \$29.2 million. Office visits increased by 1.5%, surgical procedures increased by 6.8% and ER visits increased by 1.9%. The new LIP funding increased from nearly \$17.6 million for fiscal year 2018 to \$20.9 million in fiscal year 2019, while UPL had a decrease of about \$500,000. See Note C for a detailed description of the UPL and LIP programs. Payments did rise from \$216.5 million to \$228.5 million representing an increase of 5.5%, the majority of which is due to an increase in direct patient service volume and payments. An increase in the new LIP funding, offset by the decrease in UPL funding, accounted for about \$2.8 million of the increase. Payor mix also improved slightly again this year, continuing to produce a higher average collection rate per charge dollar. Write-off for contractual adjustments and bad debts increased by 5.4% when compared to the prior year, partially a result of additional allowances as directed by management.

Other receivables grew to \$13,943,883, representing a modest increase of 2.3%. Receivables for contract revenue increased by about \$881,000 from fiscal year 2018, while miscellaneous other receivables increased by \$449,000. The receivable for UPL payments, while still significant, at \$8,524,248, fell by about \$904,000 from the prior year.

Prepaid expenses and other current assets increased to \$2,266,968, a rise of 25.6% or \$462,149. The computer inventory account is up \$111,000 as additional desktop PCs have been purchased in preparation for upgrading to Windows 10. Desktop PCs below the company's capital threshold are expensed when placed in service. Prepaid maintenance has increased by \$152,000 for CDW for a warranty on the Veritas netbackup system, while other prepaid fees are up by about \$100,000 related to the ACGME fee. Amounts due from related parties jumped this year from a balance of \$7,819,144 at year end 2018 to \$18,592,945 at year end 2019. Shands

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Management's Discussion and Analysis - Continued

Jacksonville owed the Company for the March, April and May monthly payments, as well as a \$7.3 million short term loan. All of these payments were received in July and August 2019.

Table 4 - Condensed Statements of Net Position – Liabilities

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
CURRENT LIABILITIES:				
Due to related parties	\$ 1,566,444	\$ 2,011,837	\$ (445,393)	-22.14%
Accounts payable	10,859,063	7,181,919	3,677,144	51.20%
Accrued compensation and benefits	11,648,224	9,928,486	1,719,738	17.32%
Current portion of long-term debt	890,000	854,506	35,494	4.15%
TOTAL CURRENT LIABILITIES	24,963,731	19,976,748	4,986,983	24.96%
OTHER LONG-TERM LIABILITIES:				
Long-term debt and capital lease obligations, less current portion	7,115,868	2,805,000	4,310,868	153.69%
TOTAL LIABILITIES	\$ 32,079,599	\$ 22,781,748	\$ 9,297,851	40.81%

This year, there was an increase in total liabilities, growing by \$9,297,851 or 40.8% to an ending balance of \$32,079,599. Accounts payable increased by \$3,677,144 or 51.2% from fiscal year 2018 to a balance of \$10,859,063. This category is generally comprised of amounts due to vendors who provide goods and services used for daily operations. These include medical and office supplies, temporary services, recruitment, etc. However, included in the fiscal year end 2019 balance are several large invoices totaling just over \$3.1 million related to the Wildlight building construction. Remaining in this total is an overpayment made by the Agency for Health Care Administration (AHCA) in 2014 relating to UPL payments. AHCA has been notified with follow-up on several occasions and the Company is awaiting instructions.

Accrued compensation and benefits grew by \$1,719,738 or 17.3% since last year to a balance of \$11,648,224. Included in this account is \$4,175,718 for accrued paid time off, an increase of \$383,000. The remainder is comprised of accruals for timing lags in payment for payroll and benefits.

Long-term debt and capital lease obligations is currently the third largest liability on the Company's books, but has increased significantly since prior year. The balance at year-end was \$8,005,868 including the current portion of \$890,000. In fiscal year 2019 two new Healthcare Facilities Revenue Notes, Series 2019A and Series 2019B were issued on behalf of the Company. The proceeds of the Series 2019A note, \$3,655,000, were used to refund the outstanding principal balance of tax-exempt Health Facilities Revenue Bonds that were issued in May 2002. An \$850,000 payment was made on this note in June 2019, leaving a year-end balance of \$2,805,000. The Series 2019B note is being used to finance the project costs of the Wildlight facility, with advances made at amounts expended, on a monthly basis. The year-end

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

balance on this note was \$5,200,868. The total amount borrowed on the Series 2019B note cannot exceed \$26,345,000, with annual principal payments scheduled to begin June 1, 2023. For further information on this debt including the repayment schedule, see Note G in the financial statements.

Lastly, the amount due to related parties had a significant decrease of \$445,393 or 22.1% to \$1,566,444. The largest component of this category is the payable to the University for various fees and other expenses, with a balance of \$639,729. This component also caused the majority of the change from prior year with a \$402,222 drop in the amount owed at year end. The invoice for 2018 Health Science Center IT services, at \$363,000 was not paid until July 2018, thus inflating the 2018 year-end balance. There was a decrease of \$96,539 in the amount due to Shands Jacksonville, as well as an increase of just over \$53,000 in the amount due to Shands at the University of Florida, Inc.

Table 5 - Condensed Statements of Revenue, Expenses and Changes in Net Position

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
OPERATING REVENUE:				
Net patient service revenue	\$ 245,699,926	\$ 233,981,610	\$ 11,718,316	5.01%
Other revenue	5,484,677	6,701,336	(1,216,659)	-18.16%
Charity care settlement	4,347,434	4,299,577	47,857	1.11%
Contributions from Shands Jacksonville Medical Center, Inc.	37,783,790	38,036,723	(252,933)	-0.66%
Management and other fees	45,803	44,855	948	2.11%
TOTAL OPERATING REVENUE	293,361,630	283,064,101	10,297,529	3.64%
OPERATING EXPENSES:				
Salaries and benefits	100,206,147	96,028,226	4,177,921	4.35%
Other operating expenses	38,291,294	35,522,589	2,768,705	7.79%
Dean's Fund	6,077,084	6,227,810	(150,726)	-2.42%
Program support accounts	1,003,089	877,552	125,537	14.31%
TOTAL OPERATING EXPENSE	145,577,614	138,656,177	6,921,437	4.99%
OPERATING INCOME	147,784,016	144,407,924	3,376,092	2.34%
NONOPERATING REVENUE (EXPENSES):				
Interest expense	(117,817)	(70,386)	(47,431)	67.39%
Interest income	528,651	268,717	259,934	96.73%
Loss on disposal of property and equipment	-	(16,298)	16,298	-100.00%

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

	2019	2018	Increase (Decrease)	Percent Change
Gain on sale of University of Florida Jacksonville Healthcare, Inc. membership in joint venture	-	654,545	(654,545)	-100.00%
NET NONOPERATING REVENUE	410,834	836,578	(425,744)	-50.89%
INCREASE IN NET POSITION BEFORE TRANSFERS	148,194,850	145,244,502	2,950,348	2.03%
TOTAL TRANSFERS	(150,433,438)	(140,908,381)	(9,525,057)	6.76%
INCREASE (DECREASE) IN NET POSITION	\$ (2,238,588)	\$ 4,336,121	\$ (6,574,709)	-151.63%

Operating Revenues: Total operating revenue net of the estimated provision for contractual adjustments and uncollected amounts surpassed last year's level by \$10,297,529 or 3.6%. The main increase was in net patient service revenue with growth of \$11,718,316 or 5.0%. Gross clinical charges did increase by \$31,931,563 or 5.7%. As noted in an earlier section, there was growth in office visits, surgical procedures and ER visits. UPL funds, at \$35,000,000, saw a decrease this year, of just over \$504,000, while the new LIP funding grew by nearly \$3.3 million to \$20,900,000. Our continued participation in Pay for Performance plans resulted in over \$4.4 million recorded as revenue during the current fiscal year which was slightly less than prior year. These payments came mainly from Blue Cross Blue Shield and Wellcare programs that reward physicians based on quality and cost containment measures. Indirect patient service revenue related to contractual arrangements increased by 3.2%, or \$608,189 to \$19,584,600. This was mainly the result of additional contracts with Baptist Health, related to various Pediatric programs.

Contributions from Shands Jacksonville Medical Center, which is the second largest category of revenue, decreased by \$252,933 in fiscal year 2019 to \$37,783,790. Shands Jacksonville funds various support services for the Company including medical directorships, the trauma program, administrative support, new program development, and other areas. Shands Jacksonville also provides funding to cover the deficits incurred by the Company of certain hospital-based clinics.

Other revenue fell from \$6,701,336 to \$5,484,677 representing a decrease of \$1,216,659 or 18.2%. Included in this category is the funding for meaningful use of electronic health records. This amount remained essentially unchanged from year to year at \$1,025,667. Other miscellaneous revenue fell by over 25% to \$3,323,804, a loss of over \$1,312,000. The revenue categories of Charity care settlement and Management and other fees had small increases for the year.

Operating Expenses: Total operating expenses of \$145,577,614 represents an increase of \$6,921,437 or 5% over last year. Salaries and benefits for UFJP staff easily remain the most significant costs at just under 70% of the total operating expenses. These expenses amounted to \$100,206,147 for fiscal year 2019, \$4,177,921 or 4.4% greater than the prior year. In January 2019 a market salary adjustment was implemented, based on a market salary survey. The overall adjustment is being phased in over two years. The market adjustment includes the administrative

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

and clinical support staff as well as the Advanced Practice Provider (APP) group. The UFJP management group was given a 2.0% increase. The six-month impact for the management group and the administrative and clinical support staff was about \$851,000. The six-month impact for the APP group accounted for an additional expense of approximately \$1,242,000. There is an additional \$700,000 impact from the 2.0% raise given to staff in mid-fiscal year 2018. Expenses for APPs increased by about \$1.0 million for additional positions added in the year. Extra duty and incentive pay for the APPs also increased by nearly \$300,000.

Other operating expenses totaled \$38,291,294 and represents the second largest category of expenditures. This category includes such UFJP costs as lease expense, utilities, medical supplies, office supplies, temporary services, repairs and maintenance, and depreciation and amortization on capital assets. The change from last year was an increase of \$2,768,705 or 7.8%. The largest increase came from fees which increased by \$762,000 to \$2,995,200. Factors contributing to this increase were \$248,000 for bond issuance fees, \$280,000 for support services for the Lawson software and \$100,000 more for various fees in the administrative areas. Another large category of increase was temporary services which rose \$630,591 or 49.4%. This primarily came from the clinical areas to cover vacancies in the customer service representative and medical assistant positions. Lease expense increased by \$258,000 or 2.8%, the bulk of which can be attributed to annual escalators built into the lease contracts. Purchases of medical and drug supplies contributed to \$520,000 of the increase with office supplies and PCs contributing another \$287,000. Additional repairs and maintenance costs added \$389,000.

The expense categories representing the Dean's Fund decreased by 2.4%, or 150,726 while the program support accounts had an increase of \$125,537 or 14.3%.

Non-Operating Items: Non-operating consists of such items as interest expense, interest income and gains/losses on disposal of assets. Net non-operating revenues and expenses for the year was a gain of \$410,834. Interest income nearly doubled, from \$268,717 last year to \$528,651 for fiscal year 2019. At the beginning of fiscal year 2018 the Company had over \$25 million invested in the UFJP Special Purpose Investment Account (SPIA) with the state of Florida until December 2017. During the months of December 2017 and January 2018, \$20 million was withdrawn from SPIA and placed into the operating bank account as UPL payments had not yet been received. In February 2019 \$14,000,000 was reinvested in SPIA as the company's cash position improved. The earnings rate on the SPIA account was around 2% at the beginning of the fiscal year, but had risen to around 3% for the last quarter of the year. The rate earned on the SPIA investment is substantially higher than the rate earned on the operating account. Interest expense was \$117,817, rising by 67% over the prior year, as the long-term debt balance increased throughout the year from \$3,655,000 on July 1, 2018 to \$8,005,868 on June 30, 2019. For a more detailed explanation on the change in long term debt, see the discussion in the liability section above and refer to Note G in the financial statements.

Transfers: Transfers represent payments to the University to cover the expenses of salaries and benefits of the faculty and other UF staff. The amount paid increased by \$9,525,057 or 6.8% to

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

\$150,433,438 for fiscal year 2019. There was a 3.9% increase in faculty physician FTEs, going from 427.9 in fiscal year 2018 to 444.7 in fiscal year 2019. The full year impact of a 3% increase for the faculty, effective January 1, 2018 led to additional costs of about \$1.5 million. There was also a \$1.3 million increase in lump sum payments paid to the physicians for extra duty, consult and on call pay.

Table 6 - Condensed Statements of Cash Flows

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
NET CASH PROVIDED BY				
OPERATING ACTIVITIES:	\$ 152,109,049	\$ 135,472,354	\$ 16,636,695	12.28%
CASH USED IN NONCAPITAL				
FINANCING ACTIVITIES	(150,433,438)	(140,908,381)	(9,525,057)	6.76%
NET CASH USED IN CAPITAL AND				
RELATED FINANCING ACTIVITIES	(4,099,774)	(7,542,957)	3,443,183	-45.65%
NET CASH PROVIDED BY (USED IN)				
INVESTING ACTIVITIES	(6,771,349)	923,262	(7,694,611)	-833.42%
NET (DECREASE) IN				
CASH AND CASH EQUIVALENTS	(9,195,512)	(12,055,722)	2,860,210	-23.72%
CASH AND CASH EQUIVALENTS,				
BEGINNING OF YEAR	38,743,604	50,799,326	(12,055,722)	-23.73%
CASH AND CASH EQUIVALENTS,				
END OF YEAR	\$ 29,548,092	\$ 38,743,604	\$ (9,195,512)	-23.73%

Cash Provided by Operating Activities: Net cash provided by operating activities for the year was \$152,109,049, reflecting an increase of \$16,636,695 or approximately 12.3% from last year. Total cash receipts from operating activities rose from \$269,240,434 in fiscal year 2018 to \$290,863,867 in fiscal year 2019. As with prior years, the largest source of cash, at \$247,588,396 was from clinical services provided by UF faculty and advanced practice providers to patients. The funds for these services which come from Medicare, Medicaid, other insurers and institutions as well as patients themselves, increased by \$14,742,087 or 6.3%. The next highest source of cash was from receipts from affiliates which, at \$33,714,596, is \$2,681,765 above last year's receipts in this category, which relates to the timing of the monthly payments. Receipts from other revenue increased from \$1,016,862 in fiscal year 2018 to \$5,167,638 in fiscal year 2019.

The total cash expended for operating activities rose by \$4,986,738 to \$138,754,818. By far, the largest use of cash for operating activities was in salaries and benefits of staff which amounted to \$98,486,409 and represented an increase of \$4,033,968, or 4.3% from last year. Payments for operating expenses grew by \$977,959 to \$33,188,236, reflecting higher spending for items such as supplies, fees, etc. There was a decrease to the cash outflows for the Dean's Fund and an increase to the program support accounts which nearly offset each other.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Cash Used in Noncapital Financing Activities: The payments to the University to cover the salaries and benefits of faculty and other UF staff rose from \$140,908,381 to \$150,433,438, representing an increase of \$9,525,057 or 6.8%. A number of factors contributed to this, including 16.8 more faculty physician FTEs in fiscal year 2019, faculty raises, and an increase in on call, extra duty and other one-time payments. Please see the explanation in the Transfers section for more details.

Cash Used in Capital and Related Financing Activities: The use of cash for capital and related financing activities was largely for purchases of capital assets during the year and for the issuance and related repayment of long-term debt. The purchase of capital assets for the year of \$8,328,319 was up approximately 25% from the \$6,657,414 that was spent in the prior year. In the current year, approximately \$5.2 million was paid for construction of the Wildlight medical office building. See the Capital Assets section in the discussion on assets for more detail regarding capital purchases in fiscal year 2019. As explained in the long-term liability section of this discussion, and in Note G of the financial statements, the Company received proceeds of \$8,855,868 during the year, from the issuance of long-term debt. Of that amount, \$3,655,000 was used to repay other long-term debt. A principal payment of \$850,000 was made on the new long-term debt. Interest expense paid on debt was \$70,386 in fiscal year 2018 and \$117,817 in fiscal year 2019.

Cash Provided by (Used in) Investing Activities: Cash flows related to investing activities reflected a negative result, or used in investing position for fiscal year 2019. This was the result of a short-term loan of \$7.3 million made to Shands Jacksonville at the end of the fiscal year. The intent was for this loan to be completely repaid early in fiscal year 2020. In fiscal year 2015 the sale of FCA to Molina occurred, and additional net proceeds of \$654,545 were received in fiscal year 2018. That was the final receipt, and no proceeds were recorded in fiscal year 2019. See Note M. Interest received was higher than prior year, at \$528,651 compared to \$268,717 received in fiscal year 2018. Details related to interest earnings were previously explained in the Non-Operating Items section.

ECONOMIC OUTLOOK

The Florida economy has proven to be quite resilient in the last few years with overall Gross Domestic Product (GDP) growth at 3.5% and exceeding that of the overall nation by about 0.5%. Overall, state unemployment has remained low at 3.4% in the past year. On average about 900 new residents move to Florida each day and the state is home to three of the ten fastest growing metropolitan areas in the nation. The Northeast Florida area has also continued to grow with strong economic performance. The unemployment rate for the Jacksonville metropolitan area continues at historical lows at about 3.2%. The Northeast Florida and Southeast Georgia population is expected to grow at about 2% each year and exceed 1.6 million people in the coming years with the primary service area for UFJP as Duval, Nassau, Clay, St. Johns and Baker counties. Housing starts and home sales are relatively stable as a consequence of the low unemployment rate and higher consumer confidence - offset by interest rate pressures. There

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Management's Discussion and Analysis - Continued

continues to be upward pressure on short-term interest rates while longer-term rates are experiencing downward pressure as a result of global trade tensions. Office and apartment occupancy remains high even with continued construction of new units. New companies in the Jacksonville area include a solar power company, Jinko Solar and a call and customer service center, Hinduja Global Solutions.

UF Health has continued to expand its services in Northeast Florida with the development of the North Campus and the opening of additional satellite clinics. In March 2015, UFJP and UF Health Jacksonville became the primary occupants of the Medical Office Building on the new North Campus providing a range of services including emergency medicine, radiology, outpatient surgery, lab services, and physician clinical space. Adjacent to the Medical Office Building, UF Health Jacksonville opened a new hospital bed tower with 92 beds in May 2017. Occupancy of the new bed tower has continued to be high with patients requiring more than a 24 hour stay and the opening of a labor and delivery unit. Consideration is being given to adding another bed tower and medical office building at the North Campus in the near future. Also, a new primary care clinic in the Nocatee development in northern St. Johns County was opened in FY 2019 in response to the significant residential growth in the area and a clinic in Baker County, Florida was expanded to accommodate increased patient demand.

For the coming year, UFJP plans to expand its services both within Jacksonville and further north in Nassau County, Florida. UFJP plans to open one new primary care clinic and one outpatient imaging center in Jacksonville during FY 2020. Increased patient volumes are also anticipated at both the North and Emerson Medical Office Buildings with additional physicians being assigned to both locations. UFJP purchased over seven acres of land in December 2017 and is finalizing the construction of a 43,000 square foot medical services building to primarily serve the residents of the Wildlight master planned community in Nassau County. The medical services building is planned to contain urgent care, imaging, laboratory, primary care, pediatrics, women's health, mental health and dentistry services.

The local healthcare market continues to be very competitive throughout Northeast Florida with all the major health systems expanding facilities and services. UFJP and UF Health Jacksonville are strategically situated to address the competition with the strength of its primary care satellite clinic locations, as well as, the operation of the Emerson Medical Park on the Southside, the UF Health campus on the Northside and the opening of the new medical services building in Nassau County as previously mentioned. Strategic collaboration with other UF Health entities continues to be explored in addressing the local competition and increasing market share in Northeast Florida.

The overall healthcare industry has experienced change with different reimbursement models from governmental and commercial payers based on performance. Changes started several years ago with such programs as PQRS, Meaningful Use, and Accountable Care Organizations (ACO) as part of the Affordable Care Act. The first year of measurement for MACRA, the Medicare Access, and CHIP Reauthorization Act was in calendar year 2017 and its resulting changes in

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

reimbursement effective for calendar year 2019. UFJP had already started participating in several ACO's with shared savings, in PQRS and in Meaningful Use. The latter two programs with CMS were merged along with the Value Based Modifier program into MACRA. However, Medicaid will continue Meaningful Use into 2021. These "Pay for Performance Programs" have been significant for UFJP with over \$22.5 million received from PQRS, quality and shared savings programs and over \$12 million in Meaningful use since inception. The Quality/Pay For Performance models going forward with commercial payors will be primarily a shared-savings model which UFJP already participates. UFJP continues to address these changes through a workgroup of physician and department leaders formed in 2016 with the primary goal to inform and monitor all UFJP providers.

The Upper Payment Limit (UPL) or Physicians Supplement Payment program under Medicaid continued this year with the academic centers paid a preset capitation based on the entire membership in their region. After the conversion statewide to Medicaid Reform in May 2014, roughly 84% of Medicaid services is under managed care and is expected to increase even further. For FY 2019, as with FY 2018, the practice plan received additional funds related to a new Fee for Service Enhancement program with UPL and a new funding source through the State's Low-Income Pool (LIP) distribution. Going forward, the overall UPL and LIP payment methodology is anticipated to be similar to the previous two years, and continue to follow the same methodology through 2022.

Healthcare information systems have evolved with the development of more robust and complex applications in all aspects of the health delivery process. Epic software applications have been in place at UFJP since November 2012 beginning with scheduling, registration, billing, collections and then an electronic medical records system with the ability to auto charge capture. In the fall of 2016, Healthy Planet, Epic's population health management system was implemented in the UFJP primary care satellite clinics. Quality metrics were established in five of the main chronic diseases using national standards for benchmarking. Dashboards for executives, primary care physicians, and care coordinators were developed and made available. This application monitors care gaps, sends mass communications to patients, and provides timely reports at different levels including detail by patient and across populations by age, location, insurers, etc. Another application is MyChart that is a patient portal providing patients access to their medical records. Patients can request appointments, direct schedule with their Primary Care Providers, e-check for upcoming appoints, fill out questionnaires, reconcile their allergy and medications and send messages to their providers requesting advice/questions. The MyChart portal allows patients to receive paperless billing and pay their bill through the portal since August 2017. Over 110,000 UFJP and UF Health Jacksonville patients have registered with the MyChart application. UFJP also implemented the Eligibility and Enrollment module, Tapestry, in April 2017. This module uses eligibility and enrollment files from our contract payors to update patient registrations. This reduces the overall registration error rate and speeds up the registration process for patients. During 2019, direct scheduling options for virtual visits and screening mammograms were made available through MyChart. This allows the patient to schedule their visit through MyChart when convenient for them. The electronic refund model was also implemented this year to

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

interface with a disbursements application to automatically generate payments for approved refund requests. Medical Diagnostic Lab (MDL) was set up in 2019 for bidirectional orders and results for our providers and staff thus eliminating the manual process of printing orders and enter/editing results with in the EMR.

Planned enhancements in the EPIC application in the coming year include a new look for Revenue Cycle and Access users called Storyboard. A new orthopedic module called Bones along with E-Force integration to assist providers with an automated workflow to support regulatory requirements related to HB21. The ability to e-prescribe controlled substances will be available on or about January 1, 2020 and credit card integration with Epic to post copays and self-pay balances automatically to the patient's account upon receipt will be implemented. Real Time Eligibility and benefits will be started in FY 2020 as a new vendor has been selected and will add more information automatically for front desk staff and collectors during eligibility checks for our patients.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

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

Financial Statements

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Net Position

	<i>June 30,</i>	
	<i>2019</i>	<i>2018</i>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 29,548,092	\$ 38,743,604
Patient accounts receivable, net of estimated uncollectibles and contractual adjustments of \$44,056,646 in 2019 and \$41,207,654 in 2018	10,063,988	11,952,458
Other receivables	13,943,883	13,626,844
Prepaid expenses and other current assets	2,266,968	1,804,819
Due from Shands Jacksonville Medical Center, Inc.	18,560,172	7,783,043
Due from Faculty Clinic, Inc.	32,773	36,101
TOTAL CURRENT ASSETS	74,415,876	73,946,869
CAPITAL ASSETS:		
Land	3,748,493	3,748,493
Building	2,354,490	2,354,490
Equipment	23,242,866	21,227,132
Computer software	15,434,702	15,403,672
Leasehold improvements	16,316,818	15,567,220
Construction in progress	8,755,845	433,249
TOTAL CAPITAL ASSETS	69,853,214	58,734,256
Accumulated depreciation and amortization	(43,514,008)	(38,985,306)
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	26,339,206	19,748,950
TOTAL ASSETS	\$ 100,755,082	\$ 93,695,819

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Net Position - Continued

	<i>June 30,</i>	
	<i>2019</i>	<i>2018</i>
LIABILITIES		
CURRENT LIABILITIES:		
Due to University of Florida	\$ 639,729	\$ 1,041,951
Due to Shands Jacksonville Medical Center, Inc.	619,577	716,116
Due to Shands at the University of Florida, Inc.	307,138	253,770
Accounts payable	10,859,063	7,181,919
Accrued compensation and benefits	11,648,224	9,928,486
Current portion of long-term debt and capital lease obligations	890,000	854,506
TOTAL CURRENT LIABILITIES	<u>24,963,731</u>	<u>19,976,748</u>
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion		
	<u>7,115,868</u>	<u>2,805,000</u>
TOTAL LIABILITIES	<u>32,079,599</u>	<u>22,781,748</u>
COMMITMENTS AND CONTINGENCIES - Notes H and J		
NET POSITION:		
Net investment in capital assets	18,333,338	16,089,444
Unrestricted	50,342,145	54,824,627
TOTAL NET POSITION	<u>68,675,483</u>	<u>70,914,071</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 100,755,082</u>	<u>\$ 93,695,819</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30,</i>	
	2019	2018
OPERATING REVENUE:		
Patient service revenue, net of contractual allowances and discounts	\$ 274,927,664	\$ 257,716,453
Provision for bad debts	(29,227,738)	(23,734,843)
Net patient service revenue	245,699,926	233,981,610
Other revenue	5,484,677	6,701,336
Charity care settlement	4,347,434	4,299,577
Contributions from Shands Jacksonville Medical Center, Inc.	37,783,790	38,036,723
Management and other fees	45,803	44,855
TOTAL OPERATING REVENUE	293,361,630	283,064,101
OPERATING EXPENSES:		
Salaries and benefits	100,206,147	96,028,226
Other operating expenses	38,291,294	35,522,589
Dean's Fund	6,077,084	6,227,810
Program support accounts	1,003,089	877,552
TOTAL OPERATING EXPENSES	145,577,614	138,656,177
OPERATING INCOME	147,784,016	144,407,924
NONOPERATING REVENUE (EXPENSES):		
Interest expense	(117,817)	(70,386)
Interest income	528,651	268,717
Loss on disposal of property and equipment	-	(16,298)
Gain on sale of University of Florida Jacksonville Healthcare, Inc. membership in joint venture	-	654,545
NET NONOPERATING REVENUE	410,834	836,578
INCREASE IN NET POSITION		
BEFORE TRANSFERS	148,194,850	145,244,502
TRANSFERS:		
Transfers to the University of Florida, College of Medicine	(150,433,438)	(140,908,381)
INCREASE (DECREASE) IN NET POSITION	(2,238,588)	4,336,121
NET POSITION, BEGINNING OF YEAR	70,914,071	66,577,950
NET POSITION, END OF YEAR	\$ 68,675,483	\$ 70,914,071

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on behalf of patients	\$ 247,588,396	\$ 232,846,309
Receipts from other revenue	5,167,638	1,016,862
Receipts from charity care settlement	4,347,434	4,299,577
Receipts from affiliates	33,714,596	31,032,831
Other receipts	45,803	44,855
Payments to and on behalf of employees	(98,486,409)	(94,452,441)
Payments for operating expenses	(33,188,236)	(32,210,277)
Payments to Dean's Fund	(6,077,084)	(6,227,810)
Payments to program support accounts	(1,003,089)	(877,552)
NET CASH PROVIDED BY OPERATING ACTIVITIES	152,109,049	135,472,354
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments to the University of Florida, College of Medicine	(150,433,438)	(140,908,381)
CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(150,433,438)	(140,908,381)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(8,328,319)	(6,657,414)
Proceeds from the issuance of long-term debt	8,855,868	-
Repayment of long-term debt	(4,505,000)	(810,000)
Principal payments on capital lease obligations	(4,506)	(5,157)
Interest paid	(117,817)	(70,386)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(4,099,774)	(7,542,957)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	528,651	268,717
Short-term loan to Shands Jacksonville Medical Center, Inc.	(7,300,000)	-
Net proceeds from the sale of University of Florida Jacksonville Healthcare, Inc. membership in joint venture	-	654,545
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(6,771,349)	923,262
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,195,512)	(12,055,722)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,743,604	50,799,326
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 29,548,092	\$ 38,743,604

See accompanying notes to financial statements.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Cash Flows - Continued

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 147,784,016	\$ 144,407,924
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,749,340	4,812,981
Provision for bad debts	29,227,738	23,734,843
Increase (decrease) in cash due to change in:		
Patient accounts receivable, net	(27,339,268)	(22,470,144)
Other receivables	(317,039)	(5,684,474)
Prepaid expenses and other current assets	(462,149)	(190,793)
Due to/from Shands Jacksonville Medical Center, Inc., net	(3,520,300)	(7,417,433)
Due to/from Faculty Clinic, Inc., net	3,328	(301)
Due to University of Florida	(402,222)	563,842
Accounts payable	665,867	(1,459,876)
Accrued compensation and benefits	1,719,738	1,575,785
Other current liabilities	-	(2,400,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 152,109,049</u>	<u>\$ 135,472,354</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset additions in accounts payable	<u>\$ 3,101,332</u>	<u>\$ 90,055</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

NOTE A--REPORTING ENTITY

University of Florida Jacksonville Physicians, Inc. (the Company), a component unit of the University of Florida (the University), is an approved faculty practice plan and health services support organization of the University of Florida Board of Trustees organized to support the clinical activities and the educational, research and service programs of the University of Florida College of Medicine (COM). The Company includes physicians who are employees of the University and who engage in the practice, research and teaching of medicine pursuant to their assigned duties. The Company also includes support staff that are direct employees of the Company. The Company is administered by the Dean, College of Medicine-Jacksonville.

As an approved faculty practice plan under Florida Board of Governors' Regulation 9.017, all COM faculty practice fees are maintained in accounts by the Company. Accordingly, all cash, patient receivables, reserve for uncollectible accounts, net patient service revenue, receipts from provision of administrative services and transfers to COM are recognized and recorded by the Company. The Company transfers funds to the COM for use in funding salary supplements and other related costs for the benefit of the faculty of the COM. These amounts are reflected as transfers on the statements of revenue, expenses and changes in net position. The COM may, from time-to-time, be contractually obligated to provide for physician bonus compensation. The Company may be requested to transfer funds to satisfy the COM's bonus obligations. The Company accounts for such transfers as these transfers are required. As of June 30, 2019, the Company supports the University's operation of clinics in Duval County, Florida, and surrounding counties, and South Georgia in furtherance of its purposes as an approved health services support organization to the University under Florida Board of Governors' Regulation 9.011.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Company 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 Company'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 Company reports as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting.

Basis of Accounting: The Company'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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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 Company follows GASB standards of accounting and financial reporting.

Cash and Cash Equivalents: The Company considers all highly liquid investments, including cash and interest-bearing deposits with an original maturity of 90 days or less when purchased, as cash equivalents for purposes of reporting cash flows.

Net Patient Service Revenue and Receivables: Patient service revenue is recognized as revenue in the period when the services are performed and is reported on the accrual basis of accounting at the estimated net realizable amounts from patients, third-party payers and others. A significant portion of the services provided by the Company are 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 revenue also includes an estimated provision for uncollectible accounts based upon management's evaluation of the collectibility of patient receivables considering the age of the receivables and other criteria, such as payer classifications.

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

Capital Assets: The Company's capital assets are reported at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related capital assets. The estimated useful lives of the capital assets range from three to forty years. Upon retirement or disposal, the cost of the asset and related accumulated depreciation or amortization is removed from the books and a gain or loss is recognized in the statements of revenue, expenses and changes in net position. Maintenance and repair costs are expensed as incurred. The Company periodically reviews capital assets for indicators of potential impairment. If this review indicates that the carrying amount of these assets may not be recoverable, the Company estimates the future cash flows expected to result from the operations of the asset and its eventual

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

disposition. If the sum of these future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, a write-down to estimated fair value is recorded.

Accrued Compensated Absences: The COM employees earn paid time off (PTO) days based on established policies. The University assumes the liabilities for accrued compensated absences through the establishment of a Fringe Benefit Pool. The Company transfers funds as required to support the University's Fringe Benefit Pool. The Company's employees earn PTO based on established policy. Liabilities for accrued PTO were \$4,175,718 and \$3,792,675 at June 30, 2019 and 2018, respectively.

Net Position: Net position of the Company is classified in components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and amortization 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*. The Company had no restricted net position at June 30, 2019 and 2018.

Operating Revenue and Expenses: The Company's statements of revenue, expenses and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, the Company's principal activity. Other revenue and contributions received for purposes other than capital asset acquisition are also reported as operating revenue. Nonoperating revenue consists primarily of interest income and gains on the disposal of assets. Operating expenses are all expenses incurred to support the University physicians in their provision of healthcare services, other than financing costs and nonoperating losses.

Income Taxes: The Company 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. At June 30, 2019, management does not believe the Company holds any 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. Estimates associated with contractual allowances, allowances for uncollectible accounts and with amounts to be received under the Medicaid physician upper payment limit program are particularly susceptible to material change in the near term. Future results could differ from those estimates.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 and are to be applied prospectively. Early application is permitted. Management early adopted this Statement during the year ended June 30, 2019.

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

Net patient service revenue is derived principally from professional fees charged to patients treated by the faculty of the COM and indirect patient service revenue is based on negotiated contracts with sponsoring organizations to receive professional services for their members. A reconciliation of the amounts of services provided to patients at established rates to net patient service revenue as presented in the statements of revenue, expenses and changes in net position is as follows:

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
Gross direct patient service charges	\$ 597,589,817	\$ 565,658,254
Indirect patient service revenue	19,584,600	18,976,411
	<u>617,174,417</u>	<u>584,634,665</u>
Less: Estimated contractual adjustments	(342,246,753)	(326,918,212)
Estimated uncollectible accounts	(29,227,738)	(23,734,843)
	<u>(371,474,491)</u>	<u>(350,653,055)</u>
Net patient service revenue	<u>\$ 245,699,926</u>	<u>\$ 233,981,610</u>

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

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
Third party payers	\$ 245,264,044	\$ 230,984,536
Patients responsibility, including self insured	29,663,620	26,731,917
	<u>\$ 274,927,664</u>	<u>\$ 257,716,453</u>

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

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

Medicare: All COM 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 charge.

Medicaid: Services furnished by the COM faculty physicians to Medicaid patients are reimbursed under a state fee schedule.

Medicaid Physician Upper Payment Limit: Physicians employed by or under contract with a Florida medical school are eligible to receive supplemental reimbursement under the Medicaid physicians upper payment limit (UPL) program. Net patient service revenue for 2019 and 2018 includes \$35,000,000 and \$35,504,763, respectively, related to the UPL

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

program. Other receivables at June 30, 2019 and 2018 included \$8,524,248 and \$9,428,811, respectively, in expected future payments under the UPL program.

The future of the Medicaid UPL program is uncertain. If this program were discontinued or modified, the impact on the Company could be significant.

Low Income Pool (LIP): During 2018, UFJP began receiving funding under the LIP program, which is a federal matching program that provides federal funds to Florida health care providers to cover costs for the state's most vulnerable patients. Medical school physician practices are eligible under this program. Funding for the LIP program comes from intergovernmental transfers (IGTs) and federal matching funds. IGTs are transfers of funds to the Agency for Health Care Administration from non-Medicaid governmental entities. IGT funds are then used to draw down federal matching funds and payments are made to eligible providers. Providers are encouraged to contribute funds to ensure maximum payments from the LIP program. Net patient service revenue for the years ended June 30, 2019 and 2018 includes net receipts of \$20,904,560 and \$17,567,809, respectively, related to the program.

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. In addition, participation in these programs subjects the Company to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the programs.

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

	<u>2019</u>	<u>2018</u>
Patient accounts receivable based on established charges	\$ 54,120,634	\$ 53,160,112
Estimated reserve for contractual allowances and uncollectible accounts	(44,056,646)	(41,207,654)
Patient accounts receivable, net	<u>\$ 10,063,988</u>	<u>\$ 11,952,458</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Net patient accounts receivable as of June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Insurance carriers under commercial plans	\$ 3,128,549	\$ 2,914,574
Managed care plans	1,602,783	1,607,892
Medicare	1,387,971	1,659,733
Medicaid	1,250,876	1,500,966
Patients, including self insured	1,883,759	3,143,719
Other	810,050	1,125,574
	<u>\$ 10,063,988</u>	<u>\$ 11,952,458</u>

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

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 41,207,654	\$ 40,154,192
Provision for bad debts	29,227,738	23,734,843
Charge-offs	(26,378,746)	(22,681,381)
Ending balance	<u>\$ 44,056,646</u>	<u>\$ 41,207,654</u>

The Company's estimated allowance for contractual adjustments and uncollectible accounts increased from June 30, 2018 to June 30, 2019 due to the Company's establishment of additional reserves primarily related to self-pay accounts.

NOTE D--BOARD DESIGNATED FUNDS

Program Support Accounts and Dean's Fund: The Program Support Accounts and Dean's Fund as reflected in the statements of revenue, expenses and changes in net position were designated through the Company bylaws to account for expenditures of grant revenue and other internally allocated funds. Research grants are maintained at the University of Florida, Gainesville Campus. Grant funds and distributions to the COM-Jacksonville from these grants maintained in Gainesville are used to defray salaries and benefits and expenses in attending professional meetings and programs. Amounts designated for the Dean's Fund are used as determined by the Dean, College of Medicine-Jacksonville to develop new programs and to strengthen existing medical, scientific and educational programs and for any other administrative or operational costs in furtherance of the purposes of the COM. The Dean's Fund receives certain amounts annually from operations as determined through the Company's budget process.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

NOTE E--RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions:

Faculty Clinic, Inc.: The University and Shands Jacksonville Medical Center, Inc. (Shands Jacksonville) originally established Faculty Clinic, Inc. (Faculty Clinic), a tax-exempt corporation, to promote and further medical education and research for the COM and lease defined practice areas to Shands Jacksonville and the Company. Faculty Clinic is governed by a Board of Directors in which the University has equal representation with Shands Jacksonville. Effective January 1, 1995, Faculty Clinic was restructured to operate primarily as a facilities management company that leases defined practice areas and equipment to Shands Jacksonville and the Company.

The Company also leases office space from Faculty Clinic for its administrative staff. This lease is accounted for as an operating lease, as the Company will vacate the office space upon request from the Faculty Clinic. Lease expense for the years ended June 30, 2019 and 2018 was \$648,315 and \$666,413, respectively. These amounts are included in other operating expenses in the accompanying statements of revenue, expenses and changes in net position. The Company leases staff to the Faculty Clinic and is reimbursed the full cost of those staff.

The Company charges Faculty Clinic a management fee for accounting and administrative services rendered. The Company charged Faculty Clinic a management fee of \$45,000 for each of the years ended June 30, 2019 and 2018. These amounts are included in management and other fees in the accompanying statements of revenue, expenses and changes in net position.

The Company had a receivable from Faculty Clinic of \$32,773 and \$36,101 at June 30, 2019 and 2018, respectively.

The Company is a joint and individual guarantor with Shands Jacksonville on a letter of credit (LOC) securing \$8,500,000 in tax-exempt bonds issued on behalf of Faculty Clinic. The purpose of the bonds was to finance the construction of Faculty Clinic's medical facility. The LOC expires August 1, 2019 and management of the Company believes that the Company will not be required to make any payments related to its guarantee of this indebtedness. The LOC requires the Company as a joint and individual guarantor to meet certain financial covenants such as maintaining established fixed charge coverage and minimum unrestricted cash and investments to funded debt ratios. The bonds were paid in full by Faculty Clinic in July 2019.

Shands Jacksonville: The University and the Company have entered into numerous annual agreements with Shands Jacksonville. At June 30, 2019 and 2018, the Company had a receivable from Shands Jacksonville of \$18,560,172 and \$7,783,043, respectively, and a payable to Shands Jacksonville of \$619,577 and \$716,116 at June 30, 2019 and 2018, respectively. The Company

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

funds non-physician salaries for employees of Shands Jacksonville who provide support for COM faculty physicians. The amount paid to Shands Jacksonville for such non-physician salaries was \$535,257 in 2019 and \$517,280 in 2018. Shands Jacksonville funds various support services for the University including the medical directorships, trauma program, administrative support and new program development in urology, orthopedics and other areas. Total contributions from Shands Jacksonville for the years ending June 30, 2019 and 2018 were \$36,295,246 and \$36,100,321, respectively. Such amounts are included in Contributions from Shands Jacksonville Medical Center, Inc. in the accompanying statements of revenue, expenses and changes in net position.

Because there is a teaching program for the COM on the Jacksonville campus, the Company receives various levels of funding from Shands Jacksonville for four Shands Jacksonville primary care clinics, which are operated by the Company. The Company is required to contribute funds to Shands Jacksonville when these clinics generate profits. For the years ended June 30, 2019 and 2018, the Company received \$1,488,544 and \$1,936,402, respectively, from Shands Jacksonville related to the operation of clinics. Such amounts are included in Contributions from Shands Jacksonville Medical Center, Inc. in the accompanying statements of revenue, expenses and changes in net position.

The Company pays for space leased by the University from Shands Jacksonville under various operating leases (see Note H). Lease expense under these leases was \$1,485,815 and \$1,489,308 in 2019 and 2018, respectively.

The Company entered into a loan agreement on June 27, 2019, whereby the Company loaned Shands Jacksonville \$7,300,000 with a maturity date of July 3, 2019. The loan bears interest at a rate equal to the 1-month LIBOR plus 150 basis points per annum. At June 30, 2019, the \$7,300,000 is included in Due from Shands Jacksonville Medical Center, Inc. on the statement of net position. The loan and related interest due were repaid by Shands Jacksonville to the Company on July 3, 2019.

Shands at the University of Florida, Inc.: The Company and Shands at the University of Florida, Inc. (Shands at UF) have implemented a revenue cycle and electronic medical records system. Shands at UF incurs costs associated with the maintenance of this system that the Company and Shands at UF have determined should be allocated to the Company. As of June 30, 2019 and 2018, the Company owed Shands at UF \$307,138 and \$253,770, respectively, related to these costs.

University of Florida Employed Physicians: The Company leases space from several physicians and companies owned by physicians who are employed by the University. Lease payments made to these physicians in 2019 and 2018 were \$601,210 and \$649,453, respectively, and are included

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

in other operating expenses in the accompanying statements of revenue, expenses and changes in net position.

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

The Self-Insurance Program protects the COM from losses, which are subject to Section 768.28, Florida Statutes, including legislative claim bills that in combination with the waiver of immunity limits described in Section 768.28, Florida Statutes, do not exceed \$1,000,000 per claim.

Pursuant to Florida Board of Governors' Regulation 10.001(2), the University of Florida Self-Insurance Program Council has created the University of Florida Healthcare Education Insurance Company (HEIC), a captive insurance company that is wholly owned by the State Board of Governors and domiciled in the State of Vermont. HEIC is managed by a Board of Directors created by the State Board of Governors. HEIC provides coverage for claims that are in excess of the protection afforded by the Self-Insurance Program at limits of \$4,000,000 per claim coverage. HEIC provides additional limits of liability coverage of \$100,000,000 per claim and in the aggregate, which is in excess of the coverage described above.

In the event the personal immunity of COM faculty physicians or other professional employees are not subject to the personal immunity described in Section 768.28, Florida Statutes (e.g., on assignment outside the State of Florida), the Self-Insurance Program provides the faculty physicians and other professional employees with personal liability protection, including professional liability, in the amount of \$2,000,000 per claim and with excess coverage of \$103,000,000 per claim.

Self-Insurance Program contribution costs charged against operations for the years ended June 30, 2019 and 2018 were \$1,452,610 and \$1,190,508, respectively. Premiums paid to HEIC for the years ended June 30, 2019 and 2018 were \$250,613 and \$229,506, respectively. No amounts were due to the Self-Insurance Program or the HEIC at June 30, 2019 and 2018.

Charity Care Settlement: The City of Jacksonville (the City) and Shands Jacksonville have entered into a contract (the City Contract) in which Shands Jacksonville agrees to provide medical services for the members of the City's indigent population. The City Contract is administered by Shands Jacksonville, which reimburses the Company based on a contracted rate.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

NOTE F--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:					
Land	\$ 3,748,493	\$ -	\$ -	\$ -	\$ 3,748,493
Building	2,354,490	-	-	-	2,354,490
Equipment	21,227,132	2,037,312	(59,156)	37,578	23,242,866
Computer software	15,403,672	31,030	-	-	15,434,702
Leasehold improvements	15,567,220	905,800	(161,482)	5,280	16,316,818
Construction in progress	433,249	8,365,454	-	(42,858)	8,755,845
Total capital assets	58,734,256	11,339,596	(220,638)	-	69,853,214
Accumulated depreciation:					
Building	1,638,738	83,824	-	-	1,722,562
Equipment	16,151,482	1,970,347	(59,403)	-	18,062,426
Computer software	10,221,803	1,843,424	-	-	12,065,227
Leasehold improvements	10,973,283	851,745	(161,235)	-	11,663,793
Total accumulated depreciation	38,985,306	4,749,340	(220,638)	-	43,514,008
Capital assets, net	\$ 19,748,950	\$ 6,590,256	\$ -	\$ -	\$ 26,339,206
	<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:					
Land	\$ 98,093	\$ 3,650,400	\$ -	\$ -	\$ 3,748,493
Building	2,354,490	-	-	-	2,354,490
Equipment	29,954,015	1,618,576	(10,410,796)	65,337	21,227,132
Computer software	14,951,354	257,563	(5,558)	200,313	15,403,672
Leasehold improvements	15,005,415	340,588	(4,743)	225,960	15,567,220
Construction in progress	44,517	880,342	-	(491,610)	433,249
Total capital assets	62,407,884	6,747,469	(10,421,097)	-	58,734,256
Accumulated depreciation:					
Building	1,554,488	84,250	-	-	1,638,738
Equipment	24,613,635	1,936,581	(10,398,734)	-	16,151,482
Computer software	8,392,550	1,834,811	(5,558)	-	10,221,803
Leasehold improvements	10,016,451	957,339	(507)	-	10,973,283
Total accumulated depreciation	44,577,124	4,812,981	(10,404,799)	-	38,985,306
Capital assets, net	\$ 17,830,760	\$ 1,934,488	\$ (16,298)	\$ -	\$ 19,748,950

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Estimated costs to complete construction in progress at June 30, 2019 were approximately \$16,385,000 and relate to facility construction, renovations and software related projects.

In December 2017, the Company purchased land in Nassau County north of Jacksonville for \$3,650,400. For seven years after closing, the use of the property is restricted to various medical and health care uses and ancillary general office use. The Company is constructing an ambulatory care hub on the site at an estimated cost of \$30,000,000, including furniture and equipment. This amount is included in the estimated cost to complete construction in progress at June 30, 2019.

NOTE G--LONG-TERM DEBT

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

	<i>Balance at June 30, 2018</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2019</i>	<i>Amounts Due Within One Year</i>
Health Facilities Revenue					
Bonds, Series 2002	\$ 3,655,000	\$ -	\$ (3,655,000)	\$ -	\$ -
Notes from direct borrowings:					
Healthcare Facilities Revenue					
Note, Series 2019A	-	3,655,000	(850,000)	2,805,000	890,000
Healthcare Facilities Revenue					
Note, Series 2019B	-	5,200,868	-	5,200,868	-
Total Long-Term Debt	<u>\$ 3,655,000</u>	<u>\$ 8,855,868</u>	<u>\$ (4,505,000)</u>	<u>\$ 8,005,868</u>	<u>\$ 890,000</u>
	<i>Balance at June 30, 2017</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2018</i>	<i>Amounts Due Within One Year</i>
Health Facilities Revenue					
Bonds, Series 2002	\$ 4,465,000	\$ -	\$ (810,000)	\$ 3,655,000	\$ 850,000

During 2002, the Jacksonville Health Facilities Authority (the Authority) issued \$12,930,000 of variable rate Health Facilities Revenue Bonds, Series 2002 (the Series 2002 Bonds). Proceeds of the issue were used to finance or refinance all or a portion of the costs of the acquisition, construction, renovation, and equipping of additions and extensions to selected outpatient University clinics located throughout the Jacksonville area and to refinance various other existing debt which was redeemed. During 2019, the Florida Development Finance Corporation (the Issuer) issued its Healthcare Facilities Revenue Note, Series 2019A, in the amount of \$3,655,000 (the Series 2019A Note) which was purchased by a financial institution (the Noteholder) with the proceeds being loaned to the Company to refund the Series 2002 Bonds and pay the issuance costs of the Series 2019A Note.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

In 2019, the Issuer issued its Healthcare Facilities Revenue Note, Series 2019B, in a principal amount not to exceed \$26,345,000 (the Series 2019B Note) which is purchased by the Noteholder as advances are made under the Series 2019B Note and loaned to the Company to finance approved project costs and pay the issuance costs of the Series 2019B Note. The Company is responsible for making payments directly to the Noteholder on the Series 2019A Note and Series 2019B Note (the Series 2019 Notes). The Series 2019 Notes require a monthly interest payment based on a variable rate of 81% of the Adjusted one-month LIBOR Rate. The variable rate was 2.54% and 2.61% for the Series 2019A Note and the Series 2019B Note, respectively, at June 30, 2019. The Series 2019A Note matures June 1, 2022, with annual principal payments beginning June 1, 2019. The Series 2019B Note matures April 1, 2044, with annual principal payments beginning June 1, 2023. The Series 2019B Note contains a mandatory tender where the Company agrees to purchase the Series 2019B Note on the noteholder put date of April 17, 2034 or April 17, 2039 for an amount equal to 100% of the outstanding principal unless notified 120 days in advance by the Noteholder.

During 2019, the Company had a revolving line of credit with a bank in the amount of \$10,000,000 that expired on February 27, 2019. At the time of expiration, the Company had no amounts outstanding. During 2019, the Company opened a revolving line of credit with a bank in the amount of \$10,000,000 that expires April 1, 2020. There were no amounts outstanding on this line of credit as of June 30, 2019.

There are restrictive covenants contained in the agreement related to the Series 2019 Notes. Among other things, the Company is restricted as to additional borrowings or liens on property, mergers and acquisitions and sale of assets. In addition, the Company is required to maintain a debt service coverage ratio of 1.10 and a liquidity ratio no less than 0.50. The Company was in compliance with these restrictive financial covenants at June 30, 2019. The Series 2019 Notes are secured by security agreements between the Company and the Noteholder which grant the Noteholder an interest in all assets, properties and rights of the Company with certain exceptions.

With respect to the Series 2019 Notes, the Company executed a swap agreement with an effective date of February 3, 2020, where the Company will receive a variable rate equal to 81% of the one-month LIBOR-BBA rate and pays a fixed rate of 2.266%, plus a loan spread fee of 81% of 79 basis points, on the notional amount outstanding at the effective date of February 3, 2020. This agreement terminates April 1, 2034 unless terminated at an earlier date.

The estimated future debt service requirements of the Series 2019 Notes, based on the interest rate in effect at June 30, 2019 and the principal balance outstanding at the date, are as follows:

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2020	\$ 890,000	\$ 207,413	\$ 1,097,413
2021	935,000	184,776	1,119,776
2022	980,000	160,996	1,140,996
2023	1,000,000	136,070	1,136,070
2024	1,000,000	109,907	1,109,907
2025-2028	3,200,868	175,383	3,376,251
	<u>\$ 8,005,868</u>	<u>\$ 974,545</u>	<u>\$ 8,980,413</u>

NOTE H--LEASES

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

	<i>Balance at June 30, 2018</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2019</i>	<i>Amounts Due Within One Year</i>
Capital lease obligations	\$ 4,506	\$ -	\$ (4,506)	\$ -	\$ -

	<i>Balance at June 30, 2017</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2018</i>	<i>Amounts Due Within One Year</i>
Capital lease obligations	\$ 9,663	\$ -	\$ (5,157)	\$ 4,506	\$ 4,506

During the fiscal year ended June 30, 2019, the Company paid the remaining lease obligation on equipment leased under the capital lease agreement.

The Company pays for space leased by the University under various operating lease agreements which also include leases with Shands Jacksonville and Faculty Clinic. The terms of these leases range from a month-to-month lease to 40-year leases currently ending in fiscal year 2047. These leases have various renewal options. The following are future minimum rental payments required as of June 30, 2019 under operating leases that have original or remaining non-cancelable lease terms in excess of one year:

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

<u>Year Ending June 30,</u>	
2020	\$ 8,804,367
2021	6,734,012
2022	6,279,053
2023	5,311,172
2024	4,808,685
2025-2029	11,903,390
2030-2034	2,693,351
2035-2039	330,000
2040-2044	330,000
2045-2047	165,000
Total future minimum lease payments	<u>\$ 47,359,030</u>

Lease expense was \$9,974,257 and \$9,645,544 for the years ended June 30, 2019 and 2018, respectively.

NOTE I--EMPLOYEE BENEFIT PLANS

University physicians are participants in a defined contribution plan through the COM. Contributions to the Plan are included in Transfers to the University of Florida, College of Medicine in the statements of revenue, expenses and changes in net position for the years ended June 30, 2019 and 2018 as the Company's contributions to the Plan are encompassed under the Company's required funding of the University's Fringe Benefit Pool.

In addition, several UF physicians are participants in a defined benefit plan through the State of Florida's Optional Retirement Plan. For the years ended June 30, 2019 and 2018, the Company's contributions to the Plan are encompassed under the Company's required funding of the University's Fringe Benefit Pool.

The Company participates in a contributory defined contribution retirement plan administered by the Board of Directors of the Company. Employees are eligible to receive employer contributions after one year of service. The Company contributes an amount equal to 3% of salary to the plan account of each employee's choice. For employee contributions over 3%, the Company may match up to the maximum of 6% of the employee's contributed salary. The Company matching contribution from 4% to 6% was suspended in 2009 and remains suspended as of June 30, 2019. Full vesting of the Company contributions occurs after five years of service. Retirement plan expense for the Company for this retirement plan was \$1,742,293 and \$1,677,517 for the years ended June 30, 2019 and 2018, respectively.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

NOTE J--COMMITMENTS AND CONTINGENCIES

Professional Liability: The Company 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 accident claims; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

Although the Company does not provide medical care, the Company maintains professional liability protection on an occurrence basis from the University of Florida J. Hillis Miller Health Science Center Self-Insurance Program (Note E). Professional liability protection is obtained by the Company primarily to provide the defense costs necessarily incurred to respond to, and defend any, unsupported allegations and litigation filed against the Company.

Employee Health Insurance: The Company is required to participate in employee health plans offered by the University of Florida.

Compliance Matter: In 2017, the Company identified several related cases of non-compliance that were under internal review. Repayment to governmental entities was deemed probable and a reasonable estimate of this liability was recorded as other accrued liabilities in the statement of net position as of June 30, 2017. During 2018, a settlement of approximately \$1,561,000 was reached and paid in resolution of this matter.

Legal Matters: The Company is party to various legal proceedings arising from normal business activities. In the opinion of management, the ultimate outcome of those proceedings will not have a material adverse impact on the financial position or results of operations of the Company.

However, the ultimate resolution of these proceedings may result in losses different from the amounts anticipated.

Credit Risk: Certain other financial instruments, primarily cash, potentially subject the Company to concentrations of credit risk. The Company maintains its cash with what it believes to be high-quality financial institutions and thus limits its credit exposure. At times, the cash maintained in these institutions exceeds federally insured limits.

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

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

Congress adopted comprehensive health care 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.

NOTE K--CHARITY CARE

The University has a policy of providing care to charity patients designated by the City of Jacksonville. Effective July 1, 1997, the Company began recording actual services rendered by the University to charity patients. Charges foregone related to these services for 2019 and 2018 are likely to be understated due to the lengthy lag time in the patient qualification process. These services, which are excluded from net patient service revenue, were approximately \$34,531,000 in 2019 and \$40,516,000 in 2018 at the Company's established rates. Charges foregone related to other charity patients were approximately \$21,805,000 in 2019 and \$21,397,000 in 2018. The estimated direct and indirect cost of providing these services totaled approximately \$25,588,000 and \$27,687,000 in 2019 and 2018, respectively.

Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

NOTE L--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying value of its financial instruments, including cash and cash equivalents, patient accounts and other receivables, accounts payable and accrued expenses, accrued compensation and benefits, amounts due to or from other organizations, and capital leases are at fair value, or approximate fair value, due to the nature and short-term maturities of these instruments. Management also estimates that the carrying value of its long-term debt approximates fair value due to the variable interest rate associated with that debt.

NOTE M--SALE OF MEMBERSHIP IN JOINT VENTURE

During 2015, Shands Jacksonville and University of Florida Jacksonville Healthcare, Inc. (UFJH), an entity which merged with the Company effective July 1, 2015, entered into an Asset

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2019 and 2018

Purchase Agreement to sell First Coast Advantage East, LLC (FCAE) to a third party. UFJH repaid the Company the deposit for membership in the joint venture based on proceeds from the sale. An initial gain on the sale was recognized prior to 2016. Pursuant to the Asset Purchase Agreement, the initial purchase price was subject to certain adjustments. A gain of \$654,545 was recognized by the Company during the year ended June 30, 2018, due to additional disbursements being received by the Company associated with the sale.

NOTE N--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2019 financial statements except as discussed in Note E.

Other Financial Information

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

	<i>Year Ended June 30,</i>	
	<i>2019</i>	<i>2018</i>
REVENUE	\$ -	\$ -
EXPENDITURES:		
Salaries and benefits	148,469,109	141,311,697
Other operating expenses	1,653,816	1,817,177
Total expenditures	<u>150,122,925</u>	<u>143,128,874</u>
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	(150,122,925)	(143,128,874)
TRANSFERS:		
From University of Florida Jacksonville Physicians, Inc.	<u>150,433,438</u>	<u>140,908,381</u>
EXCESS (DEFICIT) OF REVENUE AND TRANSFERS OVER EXPENDITURES	310,513	(2,220,493)
NET DEFICIENCY, BEGINNING OF YEAR	<u>(12,371,950)</u>	<u>(10,151,457)</u>
NET DEFICIENCY, END OF YEAR	<u>\$ (12,061,437)</u>	<u>\$ (12,371,950)</u>



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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
University of Jacksonville Physicians, 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 University of Florida Jacksonville Physicians, Inc. (the Company) (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 Company'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 Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 Company'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 Company'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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DYA, P.C.

Tampa, Florida
September 18, 2019