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Financial Statements  
(and Other Information)

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

*Years Ended June 30, 2020 and 2019*



UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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*Years Ended June 30, 2020 and 2019*

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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, 2020 and 2019, 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 Company'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 Company'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, 2020 and 2019, 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 20 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 25, 2020 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.

PYA, P.C.

Tampa, Florida  
September 25, 2020

## **Management's Discussion and Analysis**

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis*

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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, 2020. 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

Although FY 2020 was a very challenging year for UFJP as a result of the coronavirus pandemic, the fiscal year financial results were ahead of plan. The overall Jacksonville physicians' practice plan results for FY 2020 was a positive \$4,748,637 and includes the \$4,642,231 increase in net position of UFJP and the \$106,406 increase of the Miscellaneous Gifts and Grants Fund (MG&G) outlined in the supplemental schedule. This represents an \$8.0 million positive variance from budget, as the fiscal year 2020 budget was a deficit of \$(3,263,000) for all funds of the practice plan. While there were a number of factors behind the positive budget variance that will be outlined in the following sections, the most significant factors were the receipt of funding through the Low Income Pool (LIP) program in the amount of \$21.4 million, which was \$11.4 million more than budget and the Upper Payment Limit (UPL) funding of \$44.2 million which was \$4.2 million more than budget. UFJP also received quality/shared savings funding of \$3.6 million more than budget and unbudgeted CARES Act funding of \$5.0 million. However, these factors were offset by the negative budget variances of reduced hospital funding of \$2 million, additional accrued physician incentives of \$2.1 million, additional physician call/extra duty pay of \$3 million, net operational budget variances of \$1.8 million and an unbudgeted non-operating unrealized loss of \$5.3 million. The Program Support Accounts and Dean's Fund had a \$2,027,000 unfavorable budget variance for the year primarily the result of funding operating deficits at the Wildlight medical services center.

Total operating revenue for FY2020 increased by \$18,001,575 or 6.2% from prior year. The largest portion of the increase was the receipt of LIP/UPL funds as mentioned previously. A smaller portion of the revenue increase was patient service revenue net of provision for contractual adjustments and uncollected amounts with an increase of \$1.5 million, or 0.9%. Gross clinical revenue excluding charity increased from the prior year by only 0.53% or \$2.9 million as a result of decreased volumes related to the coronavirus community lockdown. Improved payor mix with an increase in commercial volume to 26.7% also supported the increase in operating revenue. Pay for performance, value based and shared savings programs' receipts were \$6,275,000 for fiscal year 2020, an increase of \$1.8 million the previous year. Charity gross clinical revenue decreased 15% from prior year but did not impact the net received as charity reimbursement is under a fixed payment method with UF Health Jacksonville.



## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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Total operating expenses including transfers to cover physician salaries and benefits increased from last year by \$10,868,587 or 3.7%. 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 for the new Wildlight medical services center, a new outpatient imaging center and a new primary care clinic.

Non-operating revenue for FY 2020 includes interest income on cash and investments and \$5.0 million CARES Act funding received from the Department of Health and Human Services to help offset coronavirus related expenses and lost revenue. Non-operating expense for FY 2020 includes interest expense on the Series 2019 Notes primarily for the construction of the Wildlight medical services center. An unrealized loss of \$5,341,024 is also included in FY 2020 for the market value adjustment related to the interest rate swap agreement on the Series 2019 Notes.

In relation to the statements of net position, total assets exceeded the prior year by \$33,729,650 or 33.5%. The largest changes were in cash and cash equivalents, due from Shands Jacksonville Medical Center, Inc. and buildings and equipment. Cash and cash equivalents increased from the prior year as a result of receiving the prior year outstanding amounts from Shands Jacksonville and increased receipts from and on behalf of patients, including LIP, UPL and third-party advanced payments. Included in the cash and cash equivalents is the UFJP balance of \$12.5 million in the State of Florida Special Purpose Investment Account (SPIA). Patient accounts receivable, net increased from prior year by only \$307,663 and other receivables increased by \$5,403,601 with increased outstanding contract, LIP and UPL amounts. Due from Shands Jacksonville Medical Center, Inc. decreased as a result of the payment of prior year balances. Building and equipment increased as a result of the completion of the Wildlight medical services building in Nassau County, Florida.

Current liabilities increased by \$3,537,263 and the categories with the greatest increase were accrued compensation and third-party advance payments. Accrued compensation increased as a result of increased payroll costs related to a longer period for month end payroll accrual and increased number of employees and raises. Third-party advance payments increased as a result of receiving Medicare advance payments that will be recouped by Medicare under a federal stimulus program related to the coronavirus pandemic. Long term debt increased due to the issuance of a \$30 million, 2019 tax-exempt, bank-held note used to refinance the outstanding balance of the Series 2002 Bonds and fund the construction of the Wildlight medical services building. The construction project and the related draws on the Series 2019 Note were completed in FY 2020. The interest rate for the Series 2019 Notes was a variable rate during the construction draw period and a fixed rate swap effective for 15 years thereafter. The estimated fair value of the interest rate swap is reflected as a \$5,341,024 long-term liability. The total outstanding principal balance of the Series 2019 Notes on June 30, 2020 was \$28,260,000.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

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 end of the fiscal year.

**Table 1 - Condensed Statements of Net Position - Assets**

	<i>2020</i>	<i>2019</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 58,343,462	\$ 29,548,092	\$ 28,795,370	97.5%
Patient accounts receivable, net	10,371,651	10,063,988	307,663	3.1%
Other receivables	19,347,484	13,943,883	5,403,601	38.8%
Prepaid expenses and other current assets	1,890,897	2,266,968	(376,071)	-16.6%
Due from related parties	581,799	18,592,945	(18,011,146)	-96.9%
TOTAL CURRENT ASSETS	90,535,293	74,415,876	16,119,417	21.7%
CAPITAL ASSETS, NET	43,949,439	26,339,206	17,610,233	66.9%
TOTAL ASSETS	\$ 134,484,732	\$ 100,755,082	\$ 33,729,650	33.5%

The growth in assets this year at 33.5% is substantially greater than last year's increase of 7.5%. Cash and cash equivalents at \$58,343,462, remains the largest asset category. The current balance reflects an increase of \$28,795,370 or 97.5% from last year. At year end this category is now 43.4% of total assets. A number of factors contributed to this increase 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 that were outstanding at the end of last year totaling nearly \$11 million were received in the early part of fiscal year 2020 and the hospital was current on their payments at the end of 2020. Second, a short-term loan of \$7.3 million that was made to Shands Jacksonville near the end of fiscal year 2019 was repaid in the first week of fiscal year 2020. Third, the Company received \$5,000,000 in federal assistance funding and \$4,412,439 in advance Medicare payments related to the COVID-19 pandemic.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

**Table 2 - Capital Assets**

	2020	2019	<i>Increase (Decrease)</i>	<i>Percent Change</i>
CAPITAL ASSETS, NET:				
Land and improvements	\$ 3,748,493	\$ 3,748,493	\$ -	0.00%
Building	21,073,785	631,928	20,441,857	3234.84%
Equipment	11,229,952	5,180,440	6,049,512	116.78%
Computer software	1,935,396	3,369,475	(1,434,079)	-42.56%
Leasehold improvements	5,637,847	4,653,025	984,822	21.17%
Construction in progress	323,966	8,755,845	(8,431,879)	-96.30%
CAPITAL ASSETS, NET	<u>\$ 43,949,439</u>	<u>\$ 26,339,206</u>	<u>\$ 17,610,233</u>	<u>66.86%</u>

The Company's investment in capital assets, net of accumulated depreciation and amortization, remains the Company's second largest asset category. At a 2020 fiscal year-end balance of \$43,949,439 the change from last year is an increase of \$17,610,233 or 66.9%, as asset additions were more than depreciation and amortization expense in the fiscal year. Approximately \$23,194,000 in capital assets were acquired during fiscal year 2020, offset by annual depreciation and amortization of \$5,499,122 as well as disposals. With the completion of the Wildlight medical services building in December 2019, the Building category is now the largest component, with a net balance of \$21,073,785 at year's end. The total amount capitalized for the Wildlight building was \$20,872,000 of which \$12,172,000 was added to fixed assets in fiscal year 2020 while \$8,700,000 was transferred from prior year's construction in progress. Equipment and furniture for the new facility cost \$5,880,000 and was also added to fixed assets in the current year. The large decrease in Construction in Progress is due to the completion of the Wildlight building, as the majority of last year's balance of \$8,755,845 was for that facility. A number of items led to increases in the other categories. The Company opened its first outpatient, satellite imaging center in the Baymeadows area of the city in March 2020. Total capital costs for leasehold improvements, furniture and equipment was about \$980,000. The practice plan opened a new Family Medicine center in the Crystal Springs neighborhood in west Jacksonville in January 2020. About \$526,000 was spent on leasehold improvements, medical equipment and office furniture and equipment for this site. The psychiatry practice located on the south side of Jacksonville relocated in February 2020 to a newer and larger facility. Total capital expenditures were \$524,000 for leasehold improvements, equipment and furniture. An expansion of the Crossroads Family Medicine practice in Baker county was completed in July 2019, with an investment of almost \$209,000 in construction costs and new equipment. The Pediatric department expanded the space they occupy in a building close to Wolfson Children's Hospital with the lease of an additional floor. Leasehold improvement investments of nearly \$200,000 were made to new space. Approximately \$142,000 was spent for physical improvements, such as air conditioning units, painting, flooring, security systems, etc., at various off campus clinic locations, as well as \$86,000 for building improvements at the Company owned facility housing the Lem Turner clinic. Several large acquisitions were made for the medical departments as well. The department of Pathology purchased nearly \$120,000 of equipment for a new grossing system

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

while the department of Ophthalmology spent \$250,000 for new equipment to support expanded services. The department of Surgery purchased \$215,000 worth of equipment for their office in the North MOB to expand the services they offer there, as well as \$78,000 worth of ENT equipment to enhance the services provided on campus.

Major information system related expenditures added this year include approximately \$289,000 of payments to Epic for infrastructure upgrades and licenses, \$272,000 for a new storage array system, and \$172,000 for a phone system upgrade. Approximately \$300,000 was capitalized for the purchase of new PCs, the majority of which were necessary due to a Windows 10 upgrade. A little over \$100,000 was spent on other IT related items such as servers, wireless access points, UPS devices, etc.

The cost of information system software and technology to provide professional services billing, appointment scheduling, point of service functions and the electronic health records (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.

**Table 3 - Patient Accounts Receivable**

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Beginning accounts receivable	\$ 54,120,634	\$ 53,160,112	\$ 960,522	1.81%
Charges	611,984,765	597,589,817	14,394,948	2.41%
Payments	(239,067,251)	(228,469,617)	(10,597,634)	4.64%
Write-off for contractual adjustments and bad debts	<u>(371,481,573)</u>	<u>(368,159,678)</u>	<u>(3,321,895)</u>	<u>0.90%</u>
Patient accounts receivable	55,556,575	54,120,634	1,435,941	2.65%
Reserve for contractual adjustments and bad debts	<u>(45,184,924)</u>	<u>(44,056,646)</u>	<u>(1,128,278)</u>	<u>2.56%</u>
Total patient accounts receivable, net	<u>\$ 10,371,651</u>	<u>\$ 10,063,988</u>	<u>\$ 307,663</u>	<u>3.06%</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 increased slightly this year, by \$307,663 or 3.1% to \$10,371,651 at the end of fiscal year 2020. Gross patient service charges excluding the City Contract charity services grew by 2.4% over last year to \$611,984,765. The major factor for the increase this year was additional UPL funding of \$9,185,000 as well as incremental LIP funding of \$540,000. Total UPL funding for the year was \$44.2 million while total LIP funding was \$21.4 million. See Note C for a detailed description of

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*Management's Discussion and Analysis - Continued*

the UPL and LIP programs. Direct patient service charges were directly impacted by the COVID-19 pandemic. These charges, excluding UPL and LIP, grew by just under \$2.9 million, an increase of only 0.53% from prior year. Office visits decreased by 1.3%, surgical procedures decreased by 5.2% and ER visits decreased by 5.8%. Deliveries increased by 5.2%. Many of the practice plan's clinics were closed or had limited hours beginning in early April, and gradually began reopening in early May. Most elective surgeries and other procedures were canceled during this time period and rescheduled for a later date. The Company did see a significant increase in the use of telehealth during this time period, going from 371 visits in February 2020 to 20,320 visits in April 2020. Payments did rise from \$228.5 million to \$239.1 million representing an increase of 4.6%, most of which is directly related to the increase in UPL and LIP funding. 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 0.9% when compared to the prior year. This is in line with the small increase in direct patient service charges.

Other receivables grew to \$19,347,484, representing an increase of 38.8%. Receivables for contract revenue increased by \$2,171,686 from fiscal year 2019, primarily from contracts with Wolfson Children's Hospital. However, the receivable for UPL payments increased by about \$3,777,000 from prior year and stands at \$12,301,274 at fiscal 2020 year end.

Prepaid expenses and other current assets decreased to \$1,890,897, a drop of 16.6% or \$376,071. Accounts in this category that had significant decreases were Prepaid Maintenance, down \$263,000; New Clinic Start up Expense, down \$103,000 and PC Inventory, down \$103,000.

Several accounts had increases such as Prepaid Rent, up \$36,000 and Deposits, up \$23,000. Amounts due from related parties fell this year from a balance of \$18,592,945 at year end 2019 to a balance of \$581,799 at year end 2020. At the end of fiscal year 2019, Shands 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. At the end of fiscal year 2020 Shands Jacksonville owed the Company just \$469,279 for some various items.

**Table 4 - Condensed Statements of Net Position – Liabilities**

	<i>2020</i>	<i>2019</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
<b>CURRENT LIABILITIES:</b>				
Due to related parties	\$ 440,865	\$ 1,566,444	\$ (1,125,579)	-71.86%
Accounts payable	7,006,993	10,859,063	(3,852,070)	-35.47%
Accrued compensation and benefits	15,705,697	11,648,224	4,057,473	34.83%
Third-party advanced payments	4,412,439	-	4,412,439	100.00%
Current portion of long-term debt	935,000	890,000	45,000	5.06%
<b>TOTAL CURRENT LIABILITIES</b>	<b>28,500,994</b>	<b>24,963,731</b>	<b>3,537,263</b>	<b>14.17%</b>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

	2020	2019	Increase (Decrease)	Percent Change
OTHER LONG-TERM LIABILITIES:				
Long-term debt and capital lease obligations, less current portion	27,325,000	7,115,868	20,209,132	284.00%
Estimated fair value of interest rate swap	5,341,024	-	5,341,024	100.00%
TOTAL LIABILITIES	\$ 61,167,018	\$ 32,079,599	\$ 29,087,419	90.67%

This year, there was again an increase in total liabilities, growing by \$29,087,419 or 90.7% to an ending balance of \$61,167,018. Accounts payable decreased by \$3,852,070 or 35.5% from fiscal year 2019 to a balance of \$7,006,993. 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 were 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 \$4,057,473 or 34.8% since last year to a balance of \$15,705,697. Approximately \$820,000 of additional salary expense was accrued at year end, as compared to last year, as there were two additional workdays to account for at year end. The liability for health insurance premiums is about \$1.2 million more than last year, in part because the second premium for June 2020 of \$583,526 was not paid until July 2020. Included in this category is \$4,385,289 for accrued paid time off, an increase of \$210,000. Also, a part of this balance is \$941,136 of deferred employer payroll tax that the Company has not paid, a part of the relief efforts provided by the federal government related to the COVID-19 pandemic.

A new line item in the liability section is third party advanced payments, with a balance of \$4,412,439. This is advance Medicare payments the company received in April 2020 related to the COVID-19 pandemic. These payments will be recouped by Medicare as offsets to future claims during the first and second quarters of fiscal year 2021.

Long-term debt and capital lease obligations is currently the largest liability on the Company's books and has increased significantly since prior year. The balance at year-end 2019 was \$8,005,868 including the current portion of \$890,000. The balance at year-end 2020 is \$28,260,000 including the current portion of \$935,000. 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 \$890,000 payment was made on this note in June 2020, leaving a year-end balance of \$1,915,000. The Series 2019B note was used to finance the project costs of the Wildlight facility, with advances made at amounts expended, on a monthly basis. The year-end balance on this note was \$26,345,000, the maximum amount authorized to be borrowed on the

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*Management's Discussion and Analysis - Continued*

Series 2019B note, 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.

Also, in the Other Liability section, and related to the Series 2019A and Series 2019B notes, is a liability for the estimated fair value of interest rate swap of \$5,341,024. When the notes were issued the Company also entered into an interest rate swap agreement with an expected start date of February 1, 2020, the end of the construction draw period. The fixed rate of the swap was set at 2.26%. At June 30, 2020 the swap rate was 2.1% higher than the one-month variable LIBOR rate. The liability amount is the estimated market value of the swap agreement based on the rate difference on the balance of the debt for the term of the agreement. For further information on this see Note H in the financial statements.

Lastly, the amount due to related parties had a significant decrease of \$1,125,579 or 71.9% to \$440,865. The component of this category with the largest decrease is the payable to the University for various fees and other expenses, which declined from \$639,729 to \$104,640. The invoice for 2019 Health Science Center IT services, at \$287,000 was not paid until December 2019, thus inflating the 2019 year-end balance. The invoice for 2020 was paid in June 2020. There was also a decrease of near the same amount in the due to Shands Jacksonville account which dropped from \$619,577 to 91,563. The Company resolved a number of old items over the course of fiscal year 2020. The amount due to Shands at the University of Florida, Inc. also decreased by about \$62,000.

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

	<i>2020</i>	<i>2019</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
<b>OPERATING REVENUE:</b>				
Net patient service revenue	\$ 259,709,461	\$ 245,699,926	\$ 14,009,535	5.70%
Other revenue	4,579,579	5,484,677	(905,098)	-16.50%
Charity care settlement	4,293,598	4,347,434	(53,836)	-1.24%
Contributions from Shands Jacksonville Medical Center, Inc.	42,735,567	37,783,790	4,951,777	13.11%
Management and other fees	45,000	45,803	(803)	-1.75%
<b>TOTAL OPERATING REVENUE</b>	<b>311,363,205</b>	<b>293,361,630</b>	<b>18,001,575</b>	<b>6.14%</b>
<b>OPERATING EXPENSES:</b>				
Salaries and benefits	106,998,723	100,206,147	6,792,576	6.78%
Other operating expenses	35,636,461	38,291,294	(2,654,833)	-6.93%
Dean's Fund	9,725,346	6,077,084	3,648,262	60.03%
Program support accounts	956,046	1,003,089	(47,043)	-4.69%
<b>TOTAL OPERATING EXPENSE</b>	<b>153,316,576</b>	<b>145,577,614</b>	<b>7,738,962</b>	<b>5.32%</b>
<b>OPERATING INCOME</b>	<b>158,046,629</b>	<b>147,784,016</b>	<b>10,262,613</b>	<b>6.94%</b>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

	2020	2019	Increase (Decrease)	Percent Change
NONOPERATING REVENUE (EXPENSES):				
Interest expense	(496,598)	(117,817)	(378,781)	321.50%
Interest income	1,010,392	528,651	481,741	91.13%
Change in mark-to-market of interest rate swap	(5,341,024)	-	(5,341,024)	-100.00%
Loss on disposal of property and equipment	(14,105)	-	(14,105)	-100.00%
Federal assistance revenue	5,000,000	-	5,000,000	100.00%
NET NONOPERATING REVENUE	158,665	410,834	(252,169)	-61.38%
INCREASE IN NET POSITION BEFORE TRANSFERS	158,205,294	148,194,850	10,010,444	6.75%
TOTAL TRANSFERS	(153,563,063)	(150,433,438)	(3,129,625)	2.08%
INCREASE (DECREASE) IN NET POSITION	\$ 4,642,231	\$ (2,238,588)	\$ 6,880,819	-307.37%

*Operating Revenues:* Total operating revenue net of the estimated provision for contractual adjustments and uncollected amounts surpassed last year's level by \$18,001,575 or 6.1%. The main increase was in net patient service revenue with growth of \$14,009,535 or 5.7%. The main factors driving the net patient service revenue growth were items other than direct patient service charges. As noted in an earlier section, there was a decline in office visits, surgical procedures and ER visits this year as compared to the prior year. UPL funds, at \$44,185,000, saw an increase this year of about \$9,185,000, while the LIP funding grew by nearly \$539,000 to \$21,444,000. Continued participation in Pay for Performance/Shared Savings plans resulted in nearly \$6.3 million recorded as revenue during the current fiscal year, an increase of over \$1.8 million from 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 \$921,935 to \$20,506,535. This was mainly the result of additional contracts related to various Pediatric programs.

Contributions from Shands Jacksonville Medical Center, which is the second largest category of revenue, increased by \$4,951,777 in fiscal year 2020 to \$42,735,567. In June 2019, the hospital made the decision to reduce the annual support funding by approximately \$3.5 million. The support funding was not reduced for fiscal year 2020. 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 \$5,484,677 to \$4,579,579 representing a decrease of \$905,098 or 16.5%. Included in this category is the funding for meaningful use of electronic health records. This amount fell by \$586,500 from prior year to \$439,167, as that program is winding down. Other miscellaneous revenue fell by almost 9% to \$3,030,232, a loss of over \$293,000. The revenue categories of Charity care settlement and Management and other fees had small decreases for the year.



## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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*Operating Expenses:* Total operating expenses of \$153,316,576 represents an increase of \$7,738,962 or 5.3% 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 \$106,998,723 for fiscal year 2020, \$6,792,576 or 6.8% greater than the prior year. In January 2019 a salary adjustment was implemented, based on a market salary survey. The overall adjustment was phased in over two years. The market adjustment includes the administrative and clinical support staff as well as the Advanced Practice Provider (APP) group. The second phase of the market survey was implemented in January 2020. The UFJP management group was again given a 2.0% increase, effective January 2020. The impact of the full phase in of both market adjustments, as well as the management group raise was an increase in expense of about \$4.2 million in fiscal year 2020, over fiscal year 2019.

Other operating expenses totaled \$35,636,461 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 a decrease of \$2,654,833 or 6.9%. The opening of the Wildlight facility in December 2019 added \$2,036,000 in new expense to many of the items in this category, but most notably \$936,000 in depreciation expense, \$605,000 in various supply expenses, and \$207,000 in fees. When the Wildlight facility opened, the Yulee Family Medicine clinic closed, essentially relocating to the new building. This led to a reduction in expenses of about \$172,000 for the year, again to many of the items in this category. The structure of the Wildlight practice is such, that deficits incurred by the departments that have practices there will be funded by the Dean's Fund. For fiscal year 2020 that amount was over \$3.7 million, which is included in the Other operating expense category as a credit or offset, thus creating the overall decrease in this category. Three other expense items that were below last year, and unrelated to Wildlight, are temporary services, down \$300,000, malpractice insurance, down \$201,000 and software amortization, down \$332,000.

The expense categories representing the Dean's Fund increased \$3,648,266. This increase can be attributed entirely to the deficit funding provided to the Wildlight practices as explained above. The program support accounts had a small decrease of \$47,043 or 4.7%.

*Non-Operating Items:* Non-operating consists of such items as interest expense, interest income, unrealized gains/losses and gains/losses on disposal of assets. Net non-operating revenues and expenses for the year was a gain of \$158,665. Interest income nearly doubled, from \$528,651 last year to \$1,010,392 for fiscal year 2020. This is the result of the improved cash position of the Company, as the cash and cash equivalents balance also nearly doubled, from \$29.5 million at the end of fiscal year 2019 to \$58.3 million at the end of fiscal year 2020. Within that account though, the amount invested in the UFJP Special Purpose Investment Account (SPIA) with the state of Florida declined from \$19.6 million to \$12.5 million. The rate earned on the SPIA investment is substantially higher than the rate earned on the operating account. Interest expense was \$496,598, rising by \$378,781 over the prior year, as the long-term debt balance increased throughout the year from \$8,005,868 on July 1, 2019 to \$28,260,000 on June 30, 2020. Also impacting the interest expense was the interest rate swap that went into effect in February 2020.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

This caused the Company to pay a higher rate of interest during the last part of the fiscal year, with an impact of about \$130,000. The interest rate swap also created the need for the Company to record an unrealized loss for the change in mark to market of the interest rate swap, in the amount of \$5,341,024, and a corresponding liability. The details of this calculation were previously discussed in the liability section. 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. An additional new item in the non-operating category this year is federal assistance revenue of \$5 million. This is funding from the federal government as part of the CARES Act Provider Relief Fund program for assistance with the COVID-19 pandemic.

*Transfers:* Transfers represent payments to the University to cover the expenses of salaries and benefits of the faculty physicians and other UF staff. The amount paid increased by \$3,129,625 or 2.1% to \$153,563,063 for fiscal year 2020. There was a miniscule 0.6% increase in faculty physician FTEs, going from 444.7 in fiscal year 2019 to 447.4 in fiscal year 2020. This caused an approximately \$800,000 increase in expense. The fringe benefit rate charged by the University on faculty salaries increased from 17.8% to 18.8%, to account for about \$1.1 million of the increased payments. The remainder of the increase is due to some equity increases for the UF faculty and staff, an increase in UF staff and an increase in the UF staff fringe benefit rate.

**Table 6 - Condensed Statements of Cash Flows**

	<i>2020</i>	<i>2019</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
NET CASH PROVIDED BY				
OPERATING ACTIVITIES:	\$ 175,173,191	\$ 152,109,049	\$ 23,064,142	15.16%
NET CASH USED IN NONCAPITAL				
FINANCING ACTIVITIES	(148,563,063)	(150,433,438)	1,870,375	-1.24%
NET CASH USED IN CAPITAL AND				
RELATED FINANCING ACTIVITIES	(6,125,150)	(4,099,774)	(2,025,376)	49.40%
NET CASH PROVIDED BY (USED IN)				
INVESTING ACTIVITIES	8,310,392	(6,771,349)	15,081,741	-222.73%
NET INCREASE (DECREASE) IN				
CASH AND CASH EQUIVALENTS	28,795,370	(9,195,512)	37,990,882	-413.15%
CASH AND CASH EQUIVALENTS,				
BEGINNING OF YEAR	29,548,092	38,743,604	(9,195,512)	-23.73%
CASH AND CASH EQUIVALENTS,				
END OF YEAR	\$ 58,343,462	\$ 29,548,092	\$ 28,795,370	97.45%

*Cash Provided by Operating Activities:* Net cash provided by operating activities for the year was \$175,173,191, reflecting an increase of \$23,064,142 or approximately 15.2% from last year. Total cash receipts from operating activities rose from \$290,863,867 in fiscal year 2019 to \$319,499,947 in fiscal year 2020. As with prior years, the largest source of cash, at \$260,037,211 was from clinical services provided by UF faculty and advanced practice providers to patients, as well as from UPL and LIP payments. The funds for these services which come from Medicare,

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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Medicaid, other insurers and institutions as well as patients themselves, increased by \$11,544,252 or 4.6%. The next highest source of cash was from receipts from affiliates which, at \$52,171,134 is \$18,456,538 above last year's receipts in this category. This is the result of Shands Jacksonville paying the three months' worth of funding that was due at the end of fiscal year 2019 and having paid all the funding that was due for fiscal year 2020. Receipts from other revenue decreased from \$4,263,075 in fiscal year 2019 to \$2,953,004 in fiscal year 2020.

The total cash expended for operating activities rose by \$5,571,938 to \$144,326,756. By far, the largest use of cash for operating activities was in salaries and benefits of staff which amounted to \$102,941,250 and represented an increase of \$4,454,841 or 4.5% from last year. Payments for operating expenses fell by \$2,484,122 to \$30,704,114. However, in direct correlation, cash outflows for the Dean's Fund increased by \$3,648,262 to \$9,725,346. The correlation between these two changes was explained in the operating expense section above. There was also a small decrease to the cash outflows for the program support accounts.

*Cash Used in Noncapital Financing Activities:* The payments to the University to cover the salaries and benefits of faculty physicians and other UF staff rose from \$150,433,438 to \$153,563,063, representing an increase of \$3,129,625 or 2.1%. A number of factors contributed to this, including 2.7 more faculty physician FTEs in fiscal year 2020, faculty raises, and an increase in the fringe benefit rate paid to the University on salary payments. Please see the explanation in the Transfers section for more details. A new cash inflow for this year is \$5,000,000 of federal assistance receipts. This is funding from the federal government for assistance with the COVID-19 pandemic.

*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 \$25,953,480 was significantly up from the \$8,328,319 that was spent in the prior year. The vast majority of this was for the completion of the Wildlight medical services building and for the equipment and furniture that was installed there. See the Capital Assets section in the discussion on assets for more detail regarding capital purchases in fiscal year 2020. As explained in the long-term liability section of this discussion, and in Note G of the financial statements, the Company received proceeds of \$21,144,132 during the year, from the issuance of long-term debt. A principal payment of \$890,000 was made on the new long-term debt. Interest expense paid on debt was \$496,598 in fiscal year 2020, a notable increase from the \$117,817 paid in fiscal year 2019.

*Cash Provided by (Used in) Investing Activities:* Cash flows related to investing activities reflected a positive result or provided by investing position for fiscal year 2020 as opposed to a used in investing position for fiscal year 2019. At the end of fiscal year 2019 a short-term loan of \$7.3 million was made to Shands Jacksonville, a use of cash for investing activities. This loan was repaid in early fiscal year 2020, thus providing cash from investing activities and creating a \$14.6 million change in this category of cash flow. Interest received was higher than prior year, at \$1,010,392 compared to \$528,651 received in fiscal year 2019. Details related to interest earnings were previously explained in the Non-Operating Items section.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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#### ECONOMIC OUTLOOK

Fiscal Year 2020 was very challenging with the worldwide COVID-19 virus outbreak and associated impact on the daily activities of local, national and global societies. This unprecedented coronavirus pandemic that began in March 2020 in the United States has impacted every aspect of the global economy including the healthcare industry. The impact to University of Florida Jacksonville Physicians (UFJP) and Shands Jacksonville Medical Center, Inc. (Shands Jacksonville) has been limited thus far and Federal stimulus programs have assisted financially. However, the impact to the overall state and local economies has been severe. The state's unemployment rate since February's 3.1% rose to a high of 13% in May and has since lowered to 8.4% in August with the service/tourist industry impacted the most. During periods of reduced activity, patients were reluctant to visit doctor's offices and at times, elective surgeries and procedures were discontinued as a result of statewide mandates. To date, the United States leads all countries in the world with the highest number of positive COVID-19 cases with over six million cases and number of related deaths approaching two hundred thousand. Within the United States, Florida ranks 3rd most with positive cases, with only California and Texas experiencing more positive cases. The Northeast Florida area has reported about 6% of the state total with the majority occurring in South Florida. This has significantly increased the demand for intensive care units and other COVID-19 related services, but the disruption and cancelation of other services has detrimentally impacted the finances of healthcare systems and providers.

Federal stimulus packages and programs were made available to both corporations and individuals to help offset the financial impact of the pandemic. Healthcare providers received Medicare advance payments to help with cash flow and these funds are expected to be repaid. In addition, healthcare providers also received CARES Act funding through the Department of Health and Human Services, and these funds are not expected to be repaid. Eligible individual taxpayers received a lump sum payment from the Department of Treasury and another program provided supplemental unemployment benefits. Additional stimulus programs continue to be evaluated with the likelihood of implementation closely tied with the status of the virus outbreak and general economic conditions. Continued funding of stimulus programs could further increase the national debt and negatively impact the economy for several years in the future.

It is expected that once the coronavirus spread decreases or a vaccine is distributed, previous population trends in Northeast Florida will continue. On average about 900 new residents have moved to Florida each day and the state has had three of the ten fastest growing metropolitan areas in the nation. The Northeast Florida and Southeast Georgia population is expected to continue to grow between 1% and 2% each year and exceed 1.7 million people in the coming years in the primary service area for UFJP consisting of Duval, Nassau, Clay, St. Johns and Baker counties. Housing starts and home sales have remained stable as a consequence of low interest rates. Due to the pandemic, the Federal Reserve has reduced the federal funds rate to just 0.13% and all other rates have remained at historical lows. Apartment occupancy remains high even with continued construction of new units; however, rent delinquencies have increased due to higher unemployment and demand for office space has decreased with many companies now utilizing a remote work structure.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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As of June 2020, the state of Florida had an estimated 3.0 million uninsured residents with the Northeast Florida area containing about 10% of the state uninsured total. As a result of higher unemployment, the number of uninsured residents is expected to increase and could increase providers' uncollectable accounts. Florida did not implement Medicaid expansion with the Affordable Care Act in 2010 and implemented statewide Medicaid Reform in May 2014 utilizing a managed care structure. Florida had over 4.1 million eligible Medicaid enrollees as of June 2020 with 78% participating in a managed care arrangement. The Northeast Florida area (Region 4) had a total of 424,000 eligible Medicaid enrollees representing about 10% of the state total. Close to 80% of the Northeast Florida Medicaid enrollees participate in a managed care arrangement. In the short term, it is expected that the state of Florida will continue the Medicaid managed care arrangement as opposed to Medicaid expansion.

Associated with the Medicaid program, the Upper Payment Limit (UPL) or Physicians Supplement Payment program continued this year with the academic centers paid a preset capitation based on the entire Medicaid membership in their region. For FY 2020, as with FY 2019, 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. After 2022, uncertainty exists as the proposed Medicaid Fiscal Accountability Rule (MFAR) could have significantly changed state Medicaid program financing and supplemental payments to providers. The Centers for Medicare & Medicaid Services (CMS) announced in mid-September 2020 that it would withdraw its proposed rule from its regulatory agenda and must still formally publish a notice in the Federal Register.

UFJP and Shands Jacksonville have continued to expand its services in Northeast Florida to meet the needs of the growing population in the area. In March 2015, UFJP and Shands Jacksonville became the primary occupants of the Medical Office Building on the 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, Shands Jacksonville opened a new hospital bed tower with 92 beds in May 2017 and occupancy has continued to be high. In December 2019, UFJP completed 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, Florida. The medical services building contains urgent care, imaging, laboratory, primary care, pediatrics, women's health, mental health and dentistry services. Also, new primary care clinics were opened in the Nocatee development in northern St. Johns County and the Crystal Springs area of Jacksonville. A free-standing outpatient imaging center was opened in March 2020 in the Baymeadows area of Jacksonville. As a response to the social distancing recommendations during the coronavirus pandemic, UFJP significantly increased the number and type of telemedicine visits from a couple hundred per day to over a thousand per day and UFJP expects to continue to expand this service delivery model.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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The local healthcare market remains very competitive throughout Northeast Florida with all the major health systems expanding facilities and services. UFJP and Shands 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 new Wildlight medical services building in Nassau County. Shands Jacksonville is also opening a hospital ancillary services center in the Wildlight community that contains rehabilitation services and a YMCA fitness center. For the coming year, UFJP and Shands Jacksonville plan to further expand its presence in the Northeast Florida market. An additional bed tower at the North Campus is currently being designed and planning is under way for a number of free-standing emergency room / urgent care locations. Other projects include collaboration with other health systems, including other UF Health entities, for the development of a healthcare campus in northern St. Johns County and collaboration with another physician group's development of an ambulatory surgery center.

Reimbursement for healthcare services continues to change with different reimbursement models from governmental and commercial payers based on performance. The first year of measurement for MACRA, the Medicare Access and CHIP Reauthorization Act was in calendar year 2017 and its resulting changes in reimbursement under the Merit-based Incentive Program System (MIPS) was effective for calendar year 2019. Under the MIPS structure for Medicare, providers are rated based on service-value criteria and good performers are granted increases in rates and underperformers have rate decreases. UFJP has been consistently ranked as a good performer under the MIPS structure. The Physician Quality Reporting System (PQRS) and Meaningful Use programs for Medicare 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 \$28.8 million received from PQRS, quality and shared savings programs and over \$12.4 million in Meaningful Use since inception. The Quality/Pay for Performance models going forward with commercial payers will be primarily a shared-savings model in which UFJP already participates. With the increased utilization of telemedicine, both governmental and commercial payers temporarily implemented less stringent criteria and higher reimbursement rates during the pandemic. Future qualifying criteria and rates will be evaluated based on the status of the pandemic and overall utilization of telemedicine.

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 85% of Medicaid services is under managed care and is expected to increase even further. For FY 2020, as with FY 2019, 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 three years, and continue to follow the same methodology through 2022.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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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. 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 appointments, 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. 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.

During 2019, direct scheduling options for virtual visits and screening mammograms were made available through MyChart and allows the patient to schedule their visit directly through MyChart. The electronic refund model was also implemented during 2019 to interface with a disbursements application to automatically generate payments for approved refund requests. Medical Diagnostic Lab (MDL) and Consolidated Labs were 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 within the EMR. Also, in 2019, Storyboard was implemented for clinical areas by highlighting the patient's "story" with a different user screen format.

In 2020, a number of Epic enhancements were implemented including a new orthopedic module called Bones, as well as, an integration application to assist providers with an automated workflow to support regulatory requirements related to prescribing controlled substances. Real Time Eligibility (RTE) and query chaining were implemented in 2020 and will allow RTE to find indicators for additional coverage in the eligibility response and automatically send another eligibility inquiry for that additional coverage. The Benefits Collection module was implemented to file certain benefits back to the patient encounter from the RTE query reducing the manual intervention when creating patient estimates. ACR Select (aka CareSelect Imaging) was chosen to meet the new CMS requirements that providers are required to consult clinical decision support (CDS) for all outpatient advanced diagnostic imaging orders. The solution offers point of order guidance to physicians, offering more appropriate alternative exam orders based on patient condition and structured indications entered by the providers. An area of major emphasis in the current healthcare environment is a patient's Social Determinants of Health. This module was configured and implemented in 2020 for all ambulatory clinicians as well as Inpatient Case Management. Using this tool, clinicians can provide guidance for resources to assist their patients' specific needs. The development of electronic files to close care gaps for several payers was initiated in 2020. This will support the Star Programs and can enhance bonus payments from payers.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Management's Discussion and Analysis - Continued*

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Also, in 2020, COVID-19 related changes were completed in the information system applications. These included travel screenings/questions - at scheduling and at arrival/check-in; Best Practice Advisories (BPA's) for Epic users/care providers to identify patients with potential COVID-19 exposure; COVID-19 verbiage added to discharge information and sent to MyChart; Virtual/Telemedicine and Telephone visits structure completed for all providers to create encounters for telemedicine and telephone without the need for schedule/template build and the ability to change current visit type to telemedicine or telephone for already scheduled visits. Lastly, already planned but accelerated due to the pandemic, was the move to complete remote Epic training with the use of recorded content.

Future enhancements are planned to include Single Billing Office (SBO), Revenue Guardian, credit card integration and Real Time Authorization. The SBO feature will combine the patient's self-pay balances to one statement and combine the physician and hospital self-pay operational areas. Revenue Guardian checks will apply charging parameters (guardrails) for both physician and hospital billing. Credit card integration with Epic to post copays and self-pay balances automatically to the patient's account upon receipt will be implemented.

### 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>2020</i>	<i>2019</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 58,343,462	\$ 29,548,092
Patient accounts receivable, net of estimated uncollectibles and contractual adjustments of \$45,184,924 in 2020 and \$44,056,646 in 2019	10,371,651	10,063,988
Other receivables	19,347,484	13,943,883
Prepaid expenses and other current assets	1,890,897	2,266,968
Due from Shands Jacksonville Medical Center, Inc.	469,279	18,560,172
Due from Faculty Clinic, Inc.	112,520	32,773
TOTAL CURRENT ASSETS	<u>90,535,293</u>	<u>74,415,876</u>
<b>CAPITAL ASSETS:</b>		
Land	3,748,493	3,748,493
Building	23,226,003	2,354,490
Equipment	31,825,302	23,242,866
Computer software	15,504,954	15,434,702
Leasehold improvements	17,967,166	16,316,818
Construction in progress	323,966	8,755,845
TOTAL CAPITAL ASSETS	<u>92,595,884</u>	<u>69,853,214</u>
Accumulated depreciation and amortization	<u>(48,646,445)</u>	<u>(43,514,008)</u>
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>43,949,439</u>	<u>26,339,206</u>
TOTAL ASSETS	<u>\$ 134,484,732</u>	<u>\$ 100,755,082</u>

**UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.**

*Statements of Net Position - Continued*

	<i>June 30,</i>	
	<i>2020</i>	<i>2019</i>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Due to University of Florida	\$ 104,640	\$ 639,729
Due to Shands Jacksonville Medical Center, Inc.	91,563	619,577
Due to Shands at the University of Florida, Inc.	244,662	307,138
Accounts payable	7,006,993	10,859,063
Accrued compensation and benefits	15,705,697	11,648,224
Third-party advanced payments	4,412,439	-
Current portion of long-term debt and capital lease obligations	935,000	890,000
TOTAL CURRENT LIABILITIES	<b>28,500,994</b>	<b>24,963,731</b>
<b>OTHER LIABILITIES:</b>		
Long-term debt and capital lease obligations, less current portion	27,325,000	7,115,868
Estimated fair value of interest rate swap	5,341,024	-
TOTAL LIABILITIES	<b>61,167,018</b>	<b>32,079,599</b>
<b>COMMITMENTS AND CONTINGENCIES -</b>		
Notes I and K		
<b>NET POSITION:</b>		
Net investment in capital assets	15,689,439	18,333,338
Unrestricted	57,628,275	50,342,145
TOTAL NET POSITION	<b>73,317,714</b>	<b>68,675,483</b>
TOTAL LIABILITIES AND NET POSITION	<b>\$ 134,484,732</b>	<b>\$ 100,755,082</b>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Statements of Revenue, Expenses and Changes in Net Position*

	<i>Year Ended June 30,</i>	
	<i>2020</i>	<i>2019</i>
<b>OPERATING REVENUE:</b>		
Patient service revenue, net of contractual allowances and discounts	\$ 291,404,669	\$ 274,927,664
Provision for bad debts	<b>(31,695,208)</b>	<b>(29,227,738)</b>
Net patient service revenue	<b>259,709,461</b>	245,699,926
Other revenue	4,579,579	5,484,677
Charity care settlement	4,293,598	4,347,434
Contributions from Shands Jacksonville Medical Center, Inc.	42,735,567	37,783,790
Management and other fees	45,000	45,803
TOTAL OPERATING REVENUE	<b>311,363,205</b>	293,361,630
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	106,998,723	100,206,147
Other operating expenses	35,636,461	38,291,294
Dean's Fund	9,725,346	6,077,084
Program support accounts	956,046	1,003,089
TOTAL OPERATING EXPENSES	<b>153,316,576</b>	145,577,614
OPERATING INCOME	<b>158,046,629</b>	147,784,016
<b>NONOPERATING REVENUE (EXPENSES):</b>		
Interest expense	(496,598)	(117,817)
Interest income	1,010,392	528,651
Change in mark-to-market of interest rate swap	(5,341,024)	-
Loss on disposal of property and equipment	(14,105)	-
Federal assistance revenue	5,000,000	-
NET NONOPERATING REVENUE	<b>158,665</b>	410,834
INCREASE IN NET POSITION BEFORE TRANSFERS	<b>158,205,294</b>	148,194,850
<b>TRANSFERS:</b>		
Transfers to the University of Florida, College of Medicine	<b>(153,563,063)</b>	<b>(150,433,438)</b>
INCREASE (DECREASE) IN NET POSITION	<b>4,642,231</b>	<b>(2,238,588)</b>
NET POSITION, BEGINNING OF YEAR	<b>68,675,483</b>	70,914,071
NET POSITION, END OF YEAR	<b>\$ 73,317,714</b>	<b>\$ 68,675,483</b>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Statements of Cash Flows*

	<i>Year Ended June 30,</i>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from and on behalf of patients	\$ 260,037,211	\$ 248,492,959
Receipts from other revenue	2,953,004	4,263,075
Receipts from charity care settlement	4,293,598	4,347,434
Receipts from affiliates	52,171,134	33,714,596
Other receipts	45,000	45,803
Payments to and on behalf of employees	(102,941,250)	(98,486,409)
Payments for operating expenses	(30,704,114)	(33,188,236)
Payments to Dean's Fund	(9,725,346)	(6,077,084)
Payments to program support accounts	(956,046)	(1,003,089)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<b>175,173,191</b>	<b>152,109,049</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments to the University of Florida, College of Medicine	(153,563,063)	(150,433,438)
Federal assistance receipts	5,000,000	-
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	<b>(148,563,063)</b>	<b>(150,433,438)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(25,953,480)	(8,328,319)
Proceeds from sales of capital assets	70,796	-
Proceeds from the issuance of long-term debt	21,144,132	8,855,868
Repayment of long-term debt	(890,000)	(4,505,000)
Principal payments on capital lease obligations	-	(4,506)
Interest paid	(496,598)	(117,817)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<b>(6,125,150)</b>	<b>(4,099,774)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	1,010,392	528,651
Short-term loan to Shands Jacksonville Medical Center, Inc.	-	(7,300,000)
Proceeds from maturity of short-term loan to Shands Jacksonville Medical Center, Inc.	7,300,000	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<b>8,310,392</b>	<b>(6,771,349)</b>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>28,795,370</b>	<b>(9,195,512)</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<b>29,548,092</b>	<b>38,743,604</b>
CASH AND CASH EQUIVALENTS, END OF YEAR	<b>\$ 58,343,462</b>	<b>\$ 29,548,092</b>

See accompanying notes to financial statements.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Statements of Cash Flows - Continued*

	<i>Year Ended June 30,</i>	
	<b>2020</b>	<b>2019</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	<b>\$ 158,046,629</b>	<b>\$ 147,784,016</b>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	<b>5,499,122</b>	4,749,340
Provision for bad debts	<b>31,695,208</b>	29,227,738
Increase (decrease) in cash due to change in:		
Patient accounts receivable, net	<b>(32,002,871)</b>	(27,339,268)
Other receivables	<b>(5,403,601)</b>	(317,039)
Prepaid expenses and other current assets	<b>376,071</b>	(462,149)
Due to/from Shands Jacksonville Medical Center, Inc., net	<b>10,200,403</b>	(3,520,300)
Due to/from Faculty Clinic, Inc., net	<b>(79,747)</b>	3,328
Due to University of Florida	<b>(535,089)</b>	(402,222)
Accounts payable	<b>(1,092,846)</b>	665,867
Accrued compensation and benefits	<b>4,057,473</b>	1,719,738
Third-party advanced payments	<b>4,412,439</b>	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 175,173,191</b>	<b>\$ 152,109,049</b>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital asset additions in accounts payable	<b>\$ 342,108</b>	<b>\$ 3,101,332</b>

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements*

#### *Years Ended June 30, 2020 and 2019*

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#### 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, 2020, 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 resulting from exchange and exchange-like transactions are recognized when the exchange takes

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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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 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.



## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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*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 \$4,385,289 and \$4,175,718 at June 30, 2020 and 2019, 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, 2020 and 2019.

*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, nonoperating gains and federal assistance. Operating expenses are all expenses incurred to support the University physicians in their provision of healthcare services, other than financing costs and nonoperating losses. Nonoperating expenses consist of interest expense, loss on disposals of property and equipment and negative changes in the fair value of an interest rate swap agreement.

*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, 2020, management does not believe the Company holds any uncertain tax positions. Tax returns for the years ended June 30, 2017 through 2020 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.

*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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

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 June 15, 2021; early adoption is permitted. Management is currently evaluating the impact of the adoption of the Statement on the financial statements.

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:

	<i>Year Ended June 30,</i>	
	<i>2020</i>	<i>2019</i>
Gross direct patient service charges	\$ 611,984,765	\$ 597,589,817
Indirect patient service revenue	20,506,535	19,584,600
	<u>632,491,300</u>	<u>617,174,417</u>
Less: Estimated contractual adjustments	(341,086,631)	(342,246,753)
Estimated uncollectible accounts	(31,695,208)	(29,227,738)
	<u>(372,781,839)</u>	<u>(371,474,491)</u>
Net patient service revenue	<u>\$ 259,709,461</u>	<u>\$ 245,699,926</u>

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

	<i>Year Ended June 30,</i>	
	<i>2020</i>	<i>2019</i>
Third party payers	\$ 256,677,621	\$ 245,264,044
Patients responsibility, including self insured	34,727,048	29,663,620
	<u>\$ 291,404,669</u>	<u>\$ 274,927,664</u>

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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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 (UPL):* Physicians employed by or under contract with a Florida medical school are eligible to receive supplemental reimbursement under the Medicaid UPL program. Net patient service revenue for 2020 and 2019 includes \$44,184,682 and \$35,000,000, respectively, related to the UPL program. Other receivables at June 30, 2020 and 2019 included \$12,301,274 and \$8,524,248, 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):* UFJP receives 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, 2020 and 2019 includes \$21,444,385 and \$20,904,560, respectively, related to this 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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

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, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Patient accounts receivable based on established charges	\$ 55,556,575	\$ 54,120,634
Estimated reserve for contractual allowances and uncollectible accounts	(45,184,924)	(44,056,646)
Patient accounts receivable, net	<u>\$ 10,371,651</u>	<u>\$ 10,063,988</u>

Net patient accounts receivable as of June 30, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Insurance carriers under commercial plans	\$ 2,349,370	\$ 3,128,549
Managed care plans	1,354,876	1,602,783
Medicare	3,474,501	1,387,971
Medicaid	1,075,791	1,250,876
Patients, including self insured	1,549,397	1,883,759
Other	567,716	810,050
	<u>\$ 10,371,651</u>	<u>\$ 10,063,988</u>

The activity relating to the estimated allowance for contractual adjustments and uncollectible accounts for the years ended June 30, 2020 and 2019, is summarized as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 44,056,646	\$ 41,207,654
Provision for bad debts	31,695,208	29,227,738
Charge-offs	(30,566,930)	(26,378,746)
Ending balance	<u>\$ 45,184,924</u>	<u>\$ 44,056,646</u>

The Company's estimated allowance for contractual adjustments and uncollectible accounts increased from June 30, 2019 to June 30, 2020 due to the Company's establishment of additional allowances primarily related to self-pay accounts.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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#### 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. Program Support Accounts are internally designated for the furtherance of departmental programs and the attendance of professional meetings. 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 associated with grant activity. 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.

#### 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, 2020 and 2019 was \$594,289 and \$648,315, 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, 2020 and 2019. 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 \$112,520 and \$32,773 at June 30, 2020 and 2019, respectively.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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The Company was 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 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, 2020 and 2019, the Company had a receivable from Shands Jacksonville of \$469,279 and \$18,560,172, respectively, and a payable to Shands Jacksonville of \$91,563 and \$619,577 at June 30, 2020 and 2019, respectively. The Company 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 \$763,670 in 2020 and \$535,257 in 2019. 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 ended June 30, 2020 and 2019 were \$41,301,818 and \$36,295,246, 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, 2020 and 2019, the Company received \$1,433,749 and \$1,488,544, 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 I). Lease expense under these leases was \$1,490,265 and \$1,485,815 in 2020 and 2019, 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 had an interest 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 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

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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have determined should be allocated to the Company. As of June 30, 2020 and 2019, the Company owed Shands at UF \$244,662 and \$307,138, 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 2020 and 2019 were \$283,890 and \$601,210, respectively, and are included 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, 2020 and 2019 were \$1,257,235 and \$1,452,610, respectively. Premiums paid to HEIC for the years ended June 30, 2020 and 2019 were \$275,187 and \$250,613, respectively. No amounts were due to the Self-Insurance Program or the HEIC at June 30, 2020 and 2019.

*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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

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.

NOTE F--CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2020 and 2019 is as follows:

	<i>Balance at June 30, 2019</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2020</i>
Capital assets:					
Land	\$ 3,748,493	\$ -	\$ -	\$ -	\$ 3,748,493
Building	2,354,490	3,566,565	-	17,304,948	23,226,003
Equipment	23,242,866	4,330,280	(133,182)	4,385,338	31,825,302
Computer software	15,434,702	71,040	(25,040)	24,252	15,504,954
Leasehold improvements	16,316,818	679,459	(293,364)	1,264,253	17,967,166
Construction in progress	8,755,845	14,546,912	-	(22,978,791)	323,966
Total capital assets	69,853,214	23,194,256	(451,586)	-	92,595,884
Accumulated depreciation:					
Building	1,722,562	429,656	-	-	2,152,218
Equipment	18,062,426	2,648,091	(115,167)	-	20,595,350
Computer software	12,065,227	1,504,331	-	-	13,569,558
Leasehold improvements	11,663,793	917,044	(251,518)	-	12,329,319
Total accumulated depreciation	43,514,008	5,499,122	(366,685)	-	48,646,445
Capital assets, net	\$ 26,339,206	\$ 17,695,134	\$ (84,901)	\$ -	\$ 43,949,439
	<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



UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

	<i>Balance at June 30, 2018</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2019</i>
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	<u>\$ 19,748,950</u>	<u>\$ 6,590,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,339,206</u>

Estimated costs to complete construction in progress at June 30, 2020 were approximately \$445,000 and relate to facility renovations and 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 constructed an ambulatory care hub on the site. This project resulted in the majority of the transfers from construction in progress during 2020.

NOTE G--LONG-TERM DEBT

Activity in long-term debt for the years ended June 30, 2020 and 2019 is as follows:

	<i>Balance at June 30, 2019</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2020</i>	<i>Amounts Due Within One Year</i>
Notes from direct borrowings:					
Healthcare Facilities Revenue Note, Series 2019A	\$ 2,805,000	\$ -	\$ (890,000)	\$ 1,915,000	\$ 935,000
Healthcare Facilities Revenue Note, Series 2019B	5,200,868	21,144,132	-	26,345,000	-
Total Long-Term Debt	<u>\$ 8,005,868</u>	<u>\$ 21,144,132</u>	<u>\$ (890,000)</u>	<u>\$ 28,260,000</u>	<u>\$ 935,000</u>
	<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>

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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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.

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 was purchased by the Noteholder as advances were 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 .71% and .78% for the Series 2019A Note and the Series 2019B Note, respectively, at June 30, 2020 and 2.54% and 2.61%, 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 opened a revolving line of credit with a bank in the amount of \$10,000,000 that expired April 1, 2020. The line of credit was renewed during 2020 and now has an expiration date of April 1, 2021. There were no amounts outstanding on this line of credit as of June 30, 2020 and 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, 2020 and 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.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Notes to Financial Statements - Continued*

*Years Ended June 30, 2020 and 2019*

The estimated future debt service requirements of the Series 2019 Notes, based on the interest rate in effect at June 30, 2020 and the principal balance outstanding at the date, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2021	\$ 935,000	\$ 218,951	\$ 1,153,951
2022	980,000	212,341	1,192,341
2023	1,000,000	205,412	1,205,412
2024	1,000,000	197,615	1,197,615
2025	1,000,000	189,818	1,189,818
2026-2030	5,400,000	827,457	6,227,457
2031-2035	6,100,000	606,022	6,706,022
2036-2040	6,500,000	360,416	6,860,416
2041-2044	5,345,000	105,493	5,450,493
	<u>\$ 28,260,000</u>	<u>\$ 2,923,525</u>	<u>\$ 31,183,525</u>

NOTE H--INTEREST RATE SWAP AGREEMENT

With respect to the Series 2019 Notes, the Company executed a swap agreement with an effective date of February 3, 2020, where the Company receives a variable rate equal to 81% of the one-month LIBOR-BBA rate and pays a fixed rate of 2.266%, on the notional amount of \$28,260,000 at June 30, 2020. The Company also pays 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.

Although the swap instrument is intended to manage exposure to interest rate risks associated with the debt instruments referred to above, the swap agreement has not been determined to be an effective hedge. Accordingly, the interest rate swap is reflected in the accompanying statement of net position at its aggregate fair value (a liability of \$5,341,024 at June 30, 2020) and the change in the value of the swap is reflected as a component of nonoperating expense in the statement of revenue, expenses and changes in net position for the year ended June 30, 2020. Management has considered the effects of any credit value adjustment, and while management believes the estimated fair value of the interest rate swap agreement is reasonable, the estimate is subject to change in the near term.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

NOTE I--LEASES

A schedule of changes in the Company's capital lease obligations for the year ended June 30, 2019 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)	\$ -	\$ -

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 2046. These leases have various renewal options. The following are future minimum rental payments required as of June 30, 2020 under operating leases that have original or remaining non-cancelable lease terms in excess of one year:

<i>Year Ending June 30,</i>	
2021	\$ 8,540,551
2022	6,776,131
2023	5,748,716
2024	5,220,421
2025	3,986,880
2026-2030	9,479,806
2031-2035	1,641,381
2036-2040	330,000
2041-2045	330,000
2046	99,000
Total future minimum lease payments	<u>\$ 42,152,886</u>

Lease expense was \$10,494,314 and \$9,974,257 for the years ended June 30, 2020 and 2019, respectively.

NOTE J--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, 2020 and 2019 as the Company's contributions to the Plan are encompassed under the Company's required funding of the University's Fringe Benefit Pool.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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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, 2020 and 2019, 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, 2020. Full vesting of the Company contributions occurs after five years of service. Retirement plan expense for the Company for this retirement plan was \$1,888,945 and \$1,742,293 for the years ended June 30, 2020 and 2019, respectively.

#### NOTE K--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.

*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.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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*Healthcare Industry:* The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse, and under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. 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.

*Third-Party Advanced Payments:* During 2020, as part of the response to the coronavirus (COVID-19) pandemic and in conjunction with the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund program, the Centers for Medicare and Medicaid Services (CMS) implemented the Medicare Accelerated and Advanced Payment Programs which speeds Medicare payments to providers in times of emergency, based on historical payments. Providers can request up to 100% of Medicare payment amounts for a three-month period. The provider will continue to submit claims as usual after the issuance of the accelerated or advance payments. Recoupment will not begin until 120 days after the payments are received. Providers will continue to receive full payments for their claims during the 120-day delay period. At the end of the 120-day period, the recoupment process will begin and payments to the provider will be offset/suspended until the advanced payments have been repaid. The Company received \$4,412,439 of advanced payments during the year ended June 30, 2020. No recoupment occurred during the year ended June 30, 2020, as such, all funds received are reflected as a current liability as of June 30, 2020.

#### NOTE L--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 2020 and 2019 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 \$29,357,000

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2020 and 2019*

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in 2020 and \$34,531,000 in 2019 at the Company's established rates. Charges foregone related to other charity patients were approximately \$24,920,000 in 2020 and \$21,805,000 in 2019. The estimated direct and indirect cost of providing these services totaled approximately \$25,158,000 and \$25,588,000 in 2020 and 2019, respectively.

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

#### NOTE M--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 N--FEDERAL ASSISTANCE REVENUES

During 2020, as part of the CARES Act Provider Relief Fund program, the U.S. Department of Health & Human Services (HHS) made distributions to health care providers who bill Medicare fee-for-service in order to provide financial relief during the COVID-19 pandemic. Providers were required to sign an attestation confirming receipt of the funds and agreeing to the terms and conditions of payment. The terms and conditions of payment require that the funds be used to cover lost revenue attributable to COVID-19 or health-related expenses purchased to prevent, prepare for, and respond to coronavirus. The Company attested to receiving and determined it met the terms and conditions of payment during 2020 and, as such, recognized \$5,000,000 in nonoperating revenue for the year ended June 30, 2020. Subsequent to June 30, 2020, HHS provided additional guidance regarding the use of these funds and has indicated that additional information is forthcoming that will provide clarification. In addition, an addendum to the 2020 Office of Management and Budget (OMB) Compliance Supplement that specifically addresses this funding has yet to be issued as of the date of the Independent Auditor's report. As a result, amounts recognized as income related to federal assistance from HHS are subject to change as new and clarifying guidance becomes available.

#### NOTE O--SUBSEQUENT EVENTS

Subsequent to and during the year ended June 30, 2020, due to a world-wide pandemic, there has been and continues to be substantial volatility in financial markets, which resulted in broad declines in equity and other markets. The pandemic has also had significant impacts to the economy. Management continues to monitor this volatility, but the ultimate outcome of the pandemic on the Company is unknown.

**UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.**

*Notes to Financial Statements - Continued*

*Years Ended June 30, 2020 and 2019*

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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, 2020 financial statements except as discussed in Note N.



## **Other 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>2020</i>	<i>2019</i>
REVENUE	\$ -	\$ -
EXPENDITURES:		
Salaries and benefits	152,112,876	148,469,109
Other operating expenses	1,343,781	1,653,816
Total expenditures	153,456,657	150,122,925
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	(153,456,657)	(150,122,925)
TRANSFERS:		
From University of Florida Jacksonville Physicians, Inc.	153,563,063	150,433,438
EXCESS (DEFICIT) OF REVENUE AND TRANSFERS OVER EXPENDITURES	106,406	310,513
NET DEFICIENCY, BEGINNING OF YEAR	12,061,435	12,371,948
NET DEFICIENCY, END OF YEAR	\$ 11,955,029	\$ 12,061,435

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, 2020, 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 25, 2020.

***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.

PYA, P.C.

Tampa, Florida  
September 25, 2020