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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, 2021 and 2020*

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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Years Ended June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 23, 2021 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 23, 2021

## **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, 2021. 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

Fiscal Year 2021 continued to be a challenging year for UFJP as a result of the coronavirus pandemic, but with the ongoing level of state funding, the fiscal year financial results were ahead of plan. The overall Jacksonville physicians' practice plan results for fiscal year 2021 was a positive \$6,398,000 and includes the \$8,549,466 increase in net position of UFJP and the \$(2,151,789) decrease of the Miscellaneous Gifts and Grants Fund (MG&G) outlined in the supplemental schedule. This represents a \$9.8 million positive variance from budget, as the fiscal year 2021 budget was a deficit of \$(3,398,000) 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 \$21.6 million, which was \$14.6 million more than budget and the Upper Payment Limit (UPL) funding of \$41.7 million which was \$1.0 million more than budget. UFJP also received quality/shared savings funding of \$1.5 million more than budget and \$2.8 million more contract revenue. However, these factors were offset by the negative budget variances of reduced hospital funding of \$2.9 million, additional accrued physician incentives of \$3.4 million, additional physician call/extra duty pay of \$2.9 million, net operational budget variances of \$2.7 million and an unbudgeted non-operating unrealized gain of \$2.2 million. The Program Support Accounts and Dean's Fund had a \$388,000 unfavorable budget variance for the year as a result of funding operating deficits at the Wildlight medical services center and lower state funding than budgeted.

Total operating revenue for FY2021 increased by \$22,175,871 or 7.1% from prior year. The largest portion of the increase was growth in patient service revenue with increased patient volumes as compared with FY2020 during the start of the pandemic. A smaller portion of the revenue increase was from Shands Jacksonville Medical Center, Inc. (Shands Jacksonville) Contributions \$1.3 million, or 3.1%. Gross clinical revenue excluding charity increased from the prior year by 11.4% or \$61.8 million, again comparing to a prior year that includes the start of the pandemic. Improved payor mix with an increase in commercial volume to 28.1% also supported the increase in operating revenue. Pay for performance, value based and shared

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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savings programs' receipts were \$5,498,000 for fiscal year 2021, a decrease of \$777,000 from the previous year. Charity gross clinical revenue decreased 22% in FY2021 and decreased 15% in FY2020 from respective prior years, but did not impact the net received as charity reimbursement is under a fixed payment method with UF Health Jacksonville.

Total operating expenses including transfers to cover physician salaries and benefits increased from last year by \$19,393,000 or 6.4%. Factors related to the expense increase included increased number of physicians and staff, salary increases, increase in call/extra duty pay and an increase in other operating expenses for a full year of new service sites - Wildlight medical services building, outpatient imaging center and a new primary care clinic.

Non-operating revenue for FY 2021 includes an unrealized gain of \$2,161,494 for the market value adjustment related to the interest rate swap agreement on the Series 2019 Notes. FY2020 included \$5.0 million Cares Act funding received from the Department of Health and Human Services to help offset coronavirus related expenses and lost revenue with \$0 received in FY2021. Non-operating expense for FY 2021 includes interest expense on the Series 2019 Notes primarily for the construction of the Wildlight medical services center and investment (loss) on cash and investments with a depressed rate environment.

In relation to the statements of net position, total assets exceeded the prior year by \$23,266,478 or 17.3%. The largest changes were in cash and cash equivalents and other receivables. Cash and cash equivalents decreased from the prior year by \$20,541,276 as a result of delay in UPL funding. Other receivables increased by \$43,889,531 in anticipation of the UPL funding which was ultimately received by August 2021. Included in the cash and cash equivalents is the UFJP balance of \$17.5 million in the State of Florida Special Purpose Investment Account (SPIA) and \$10.0 million drawn on a short term line of credit. Patient accounts receivable, net increased from prior year by \$2,823,269. Total capital assets, net decreased as a result of annual depreciation and amortization greater than new assets added for the year.

Current liabilities increased by \$17,858,506 and the categories with the greatest increase were accounts payable, line of credit and accrued compensation. Accounts payable increased as a result of increased trade payables. \$10.0 million was drawn on the line of credit to provide liquidity until the receipt of UPL funding. Accrued compensation increased as a result of deferred payroll taxes in conjunction with the CARES Act and increased paid time off balances. Also, Third-party advance payments decreased as a result of the beginning of the repayment of prior year's Medicare advances. Long-term debt decreased due to an annual principal payment on the 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 interest rate for the Series 2019 Notes was a variable rate during the construction period and a fixed rate swap effective for 15 years thereafter. The estimated fair value of the interest rate swap is reflected as a \$3,179,530 long-term liability. The total outstanding principal balance of the Series 2019 Notes on June 30, 2021 was \$27,325,000.



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*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>2021</i>	<i>2020</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 37,802,186	\$ 58,343,462	\$ (20,541,276)	-35.2%
Patient accounts receivable, net	13,194,920	10,371,651	2,823,269	27.2%
Other receivables	63,237,015	19,347,484	43,889,531	226.8%
Prepaid expenses and other current assets	2,292,384	1,890,897	401,487	21.2%
Due from related parties	573,952	581,799	(7,847)	-1.3%
TOTAL CURRENT ASSETS	117,100,457	90,535,293	26,565,164	29.3%
CAPITAL ASSETS, NET	40,650,753	43,949,439	(3,298,686)	-7.5%
TOTAL ASSETS	\$ 157,751,210	\$ 134,484,732	\$ 23,266,478	17.3%

The growth in assets this year at 17.3% is a little more than one half of last year's increase of 33.5%, but still significant. Cash and cash equivalents at \$37,802,186, is not the largest asset category, as is normally the case. The current balance reflects a decrease of \$20,541,276 or 35.2% from last year. At year end this category is now 23.9% of total assets. A number of factors contributed to this decrease and will be discussed in detail in the statement of cash flows section. However, the major item of note is reflected in the largest asset category for fiscal year 2021, other receivables. Other receivables ended the year with a balance of \$63,237,015, a \$43,889,531 or 226.8% increase over prior year. Nearly all of the increase over prior year, just over \$42 million, is related to the UPL funding. As of June 30, 2021 the Company had not received any of the funding that flows through the managed care organizations. The total amount of the receivable related to UPL is \$54,381,319. Receivables for contract revenue increased by \$1,786,121 from fiscal year 2020, primarily from contracts with Wolfson Children's Hospital. The other receivable category accounts for 40% of all assets. Patient accounts receivable grew by a little over \$2.8 million or 27.2%.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

**Table 2 - Capital Assets**

	<i>2021</i>	<i>2020</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
CAPITAL ASSETS, NET:				
Land and improvements	\$ 3,748,493	\$ 3,748,493	\$ -	0.00%
Building	20,420,339	21,073,785	(653,446)	-3.10%
Equipment	10,128,033	11,229,952	(1,101,919)	-9.81%
Computer software	802,963	1,935,396	(1,132,433)	-58.51%
Leasehold improvements	4,933,990	5,637,847	(703,857)	-12.48%
Construction in progress	616,935	323,966	292,969	90.43%
CAPITAL ASSETS, NET	<u>\$ 40,650,753</u>	<u>\$ 43,949,439</u>	<u>\$ (3,298,686)</u>	<u>-7.51%</u>

The Company's investment in capital assets, net of accumulated depreciation and amortization, remains the Company's second largest asset category. At a 2021 fiscal year-end balance of \$40,650,753 the change from last year is a decrease of \$3,298,686 or 7.5%, as depreciation and amortization expense was more than asset additions in the fiscal year. Approximately \$2,791,000 in capital assets were acquired during fiscal year 2021, offset by annual depreciation and amortization of \$6,089,000 as well as disposals. The Building category, composed primarily of the Wildlight medical services building, remains the largest component, with a net balance of \$20,420,339 at year's end. A number of additions were made in the other categories. Approximately \$260,000 was added to leasehold improvements for the Urology space at the downtown campus while \$80,000 was spent at the satellite clinics for leasehold improvements, including HVAC repair, flooring and signage. An additional \$135,000 was spent at the satellite clinics for equipment replacement for items such as spot monitors and ECGs. Several large acquisitions were made for the medical departments as well. The department of Medicine purchased an ultrasound machine for \$124,000, the department of OMFS spent \$123,000 on a CT scan machine, while the department of Pediatrics purchased two ultrasound machines for the Cardiology program at a total of \$377,000. The department of Pathology purchased a new faxitron pathvision machine for \$161,000 along with \$84,000 of other related medical equipment.

There are two major projects that are currently in the Construction in Progress category. The first is the Single Billing Office (SBO) project as part of the Epic system. This is a joint process with Shands Jacksonville and is targeted to go live in October 2021. Approximately \$165,000 was spent in fiscal year 2021. The second project is the UF Health Brain Wellness Center. This is a program for veterans who have had traumatic brain injuries, and is expected to open in November 2021. About \$80,000 was spent in fiscal year 2021 to begin the buildout and improvement of the space that will be used for this program.

Major information system related expenditures added this year include approximately \$362,000 for new phones for use throughout the system, \$113,000 for new credit card readers at the

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

clinics, and about \$160,000 for 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**

	2021	2020	Increase (Decrease)	Percent Change
Beginning accounts receivable	\$ 55,556,574	\$ 54,120,634	\$ 1,435,940	2.65%
Charges	670,773,902	611,984,765	58,789,137	9.61%
Payments	(256,941,884)	(239,067,251)	(17,874,633)	7.48%
Write-off for contractual adjustments and bad debts	(406,785,947)	(371,481,573)	(35,304,374)	9.50%
Patient accounts receivable	62,602,645	55,556,575	7,046,070	12.68%
Reserve for contractual adjustments and bad debts	(49,407,725)	(45,184,924)	(4,222,801)	9.35%
Total patient accounts receivable, net	<u>\$ 13,194,920</u>	<u>\$ 10,371,651</u>	<u>\$ 2,823,269</u>	<u>27.22%</u>

Patient accounts receivable, while up from last year, continued to be less than 10% of the Total Assets. Net of estimated uncollectibles and contractual adjustments, the balance in this category increased this year, by \$2,823,269 or 27.2% to \$13,194,920 at the end of fiscal year 2021. Gross patient service charges excluding the City Contract charity services grew by 9.6% over last year to \$670,773,902. The major factor for the increase this year was direct patient service charges, excluding UPL and LIP, which grew by over \$61.2 million, an increase of 11.4% from prior year. Patient service charges were depressed in fiscal year 2020 due to the Covid-19 pandemic and the reduction in services for several months. However, services did begin to recover early in fiscal year 2021 and remained strong throughout the year. Surgical procedures increased by 8.0%, office visits increased by 4.9%, and deliveries increased by 4.1%. However, ER visits continued to drop, with an 8.9% decrease. Total UPL funding for the year was \$41.7 million while total LIP funding was \$21.6 million. See Note C for a detailed description of the UPL and LIP programs. Payments did rise from \$239.1 million to \$256.9 million representing an increase of 7.5%, all of which came from an increase in direct patient care payments which grew by \$20.8 million from the prior year. 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 9.5% when compared to the prior year. This is in line

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*Management's Discussion and Analysis - Continued*

with the level of increase in direct patient service charges.

Prepaid expenses and other current assets increased to \$2,292,384, a gain of 21.2% or \$401,487. Accounts in this category that had significant increases were Prepaid Rent, up \$143,854; Deposits, up \$128,978 and Prepaid Other, up \$191,703. Computer inventory had a decrease of \$112,227.

Amounts due from related parties was consistent with last year at \$573,952, a small decrease of about \$7,800 or just over 1%. This consists of amounts owed from Shands Jacksonville and Faculty Clinic, Inc.

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

	2021	2020	Increase (Decrease)	Percent Change
<b>CURRENT LIABILITIES:</b>				
Due to related parties	\$ 886,897	\$ 440,865	\$ 446,032	101.17%
Accounts payable	9,911,538	7,006,993	2,904,545	41.45%
Line of credit	10,000,000	-	10,000,000	100.00%
Accrued compensation and benefits	21,160,721	15,705,697	5,455,024	34.73%
Third-party advanced payments	3,420,344	4,412,439	(992,095)	-22.48%
Current portion of long-term debt	980,000	935,000	45,000	4.81%
<b>TOTAL CURRENT LIABILITIES</b>	<b>46,359,500</b>	<b>28,500,994</b>	<b>17,858,506</b>	<b>62.66%</b>
<b>OTHER LONG-TERM LIABILITIES:</b>				
Long-term debt and capital lease obligations, less current portion	26,345,000	27,325,000	(980,000)	-3.59%
Estimated fair value of interest rate swap	3,179,530	5,341,024	(2,161,494)	-40.47%
<b>TOTAL LIABILITIES</b>	<b>\$ 75,884,030</b>	<b>\$ 61,167,018</b>	<b>\$ 14,717,012</b>	<b>24.06%</b>

This year, there was again an increase in total liabilities, growing by \$14,717,012 or 24.1% to an ending balance of \$75,884,030. Accounts payable increased by \$2,904,545 or 41.5% from fiscal year 2020 to a balance of \$9,911,538. 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. 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. This amount was increased by \$1,800,000 to account for potential payback of LIP funds previously received. AHCA has begun a process of auditing each year of LIP payments and some uncertainty exists regarding the format of data submitted from the eligible medical schools. The initial audit was conducted for funds received in fiscal year 2018 and the Company did not owe anything back.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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Accrued compensation and benefits grew by \$5,455,024 or 34.7% since last year to a balance of \$21,160,721. Approximately \$350,000 of additional salary expense was accrued at year end, as compared to last year, as there was one additional workday to account for at year end. The liability for health insurance premiums is about \$925,000 more than last year. Also included in this category is \$5,725,094 for accrued paid time off, an increase of \$1,339,805. Another component of this balance is \$3,581,996 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. This is an increase of \$2,640,806 over last year. Per the most recent guidance, 50% of the balance is due December 31, 2021 and the remaining 50% is due December 31, 2022.

A new line item, third party advanced payments, was added in the liability section for fiscal year 2020, with a balance of \$4,412,439. This was advance Medicare payments the company received in April 2020 related to the COVID-19 pandemic. Hold backs began in April 2021. The balance at June 30, 2021 is \$3,420,344 and is expected to be completely paid back by the end of fiscal year 2022.

Also in the current liabilities total at June 30, 2021 is \$10 million owed on the line of credit. The Company periodically has to borrow on the line of credit to cover short term cash needs. This year, with the delay in receipt of UPL funds, the Company borrowed the full \$10 million in early June, which was still outstanding a year end, as receipt of UPL funds was still pending.

Long-term debt and capital lease obligations is currently the largest liability on the Company's books. The balance at year-end 2021 is \$27,325,000 including the current portion of \$980,000. 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. A \$935,000 payment was made on this note in June 2021, leaving a year-end balance of \$980,000. 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 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 an interest rate swap agreement of \$3,179,530. This balance is down \$2,161,494 from last year's balance of \$5,341,024. When the notes were issued the Company also entered into an interest rate swap agreement with a start date of February 3, 2020, the end of the construction draw period. The fixed rate of the swap was set at 2.266%. At June 30, 2021 the swap rate was 2.2% 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.

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*Management's Discussion and Analysis - Continued*

Lastly, the amount due to related parties more than doubled from \$440,865 at June 30, 2020 to \$886,897 at June 30, 2021. The majority of this increase is attributed to the payable to the University for various fees and other expenses, which grew by \$362,804 due to an accrual of \$350,000 for the Health Science Center strategic fund which has not yet been paid. The amount due to Shands at the University of Florida, Inc. also increased by about \$156,000 for Epic related costs. The amount due to Shands Jacksonville dropped from \$91,563 to \$18,942 as the Company is current with its payments to the Hospital.

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

	2021	2020	Increase (Decrease)	Percent Change
OPERATING REVENUE:				
Net patient service revenue	\$ 281,395,769	\$ 259,709,461	\$ 21,686,308	8.35%
Other revenue	3,798,106	4,579,579	(781,473)	-17.06%
Charity care settlement	4,245,132	4,293,598	(48,466)	-1.13%
Contributions from Shands Jacksonville Medical Center, Inc.	44,050,065	42,735,567	1,314,498	3.08%
Management and other fees	50,004	45,000	5,004	11.12%
TOTAL OPERATING REVENUE	333,539,076	311,363,205	22,175,871	7.12%
OPERATING EXPENSES:				
Salaries and benefits	117,988,996	106,998,723	10,990,273	10.27%
Other operating expenses	40,444,012	35,636,461	4,807,551	13.49%
Dean's Fund	6,547,793	9,725,346	(3,177,553)	-32.67%
Program support accounts	892,257	956,046	(63,789)	-6.67%
TOTAL OPERATING EXPENSE	165,873,058	153,316,576	12,556,482	8.19%
OPERATING INCOME	167,666,018	158,046,629	9,619,389	6.09%
NONOPERATING REVENUE (EXPENSES):				
Interest expense	(829,220)	(496,598)	(332,622)	66.98%
Investment income (loss)	(49,017)	1,010,392	(1,059,409)	-104.85%
Change in mark-to-market of interest rate swap	2,161,494	(5,341,024)	7,502,518	-140.47%
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	1,283,257	158,665	1,124,592	708.78%
INCREASE IN NET POSITION BEFORE TRANSFERS	168,949,275	158,205,294	10,743,981	6.79%
TOTAL TRANSFERS	(160,399,809)	(153,563,063)	(6,836,746)	4.45%
INCREASE IN NET POSITION	\$ 8,549,466	\$ 4,642,231	\$ 3,907,235	84.17%

*Operating Revenues:* Total operating revenue net of the estimated provision for contractual adjustments and uncollected amounts surpassed last year's level by \$22,175,871 or 7.1%. Nearly all of the increase came from net patient service revenue with growth of \$21,686,308 or 8.4%. Of

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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the growth in the net patient service revenue, \$23.2 million came from growth in direct patient service revenue. As noted in an earlier section, there was an increase in office visits, surgical procedures and deliveries this year as compared to the prior year. UPL funds, at \$41,723,000, saw a decrease this year of about \$2,462,000, while the LIP funding grew by nearly \$115,000 to \$21,559,000. Continued participation in Pay for Performance/Shared Savings plans resulted in nearly \$5.5 million recorded as revenue during the current fiscal year, although that amount is a drop of about \$777,000 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 7.4%, or \$1,514,000 to \$22,020,846. 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 \$1,314,498 in fiscal year 2021 to \$44,050,065. 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 \$4,579,579 to \$3,798,106 representing a decrease of \$781,473 or 17.1%. Included in this category is the funding for meaningful use of electronic health records. This amount fell by \$141,667 from prior year to \$297,500, as that program is winding down. Other miscellaneous revenue fell by almost 18% to \$2,579,251, a loss of nearly \$451,000. The Charity care settlement revenue had a small decrease of \$48,466.

*Operating Expenses:* Total operating expenses of \$165,873,058 (excluding transfers) represents an increase of \$12,556,482 or 8.2% over last year. Salaries and benefits for UFJP staff easily remain the most significant costs, at just over 71% of the total operating expenses. These expenses amounted to \$117,988,996 for fiscal year 2021, \$10,990,273 or 10.3% greater than the prior year. Approximately \$6.7 million, or 60.6% of the increase is in salary expense. Salaries for the Advanced Practice Provider (APP) group grew by \$2.3 million, a 10.1% increase, as equity adjustments continued to be made in an effort to retain staff. Included in the fiscal year 2021 amounts is a full year impact of the market salary survey adjustment that was implemented in January 2019. The overall adjustment was phased in over two years and included the administrative and clinical support staff as well as the APP group. In fiscal year 2021 most of the UFJP staff (with several predetermined exceptions) were paid a one-time bonus equivalent to 1.5% of their annual earnings. A 2% pay raise was provided to essentially the same group of employees, with an effective date of December 27, 2020. The medical assistants group had a separate pay rate adjustment that was implemented, based somewhat on updated market data. In total, the costs of employee benefits rose by almost \$4.5 million or just over 21% from prior year. The main contributor to the increase was health insurance expense which was about \$2.5 million more than last year. There were two factors for this. One, in fiscal year 2020, GatorCare reduced premiums over the last two months of the year in consideration of the COVID-19 pandemic. Second, monthly premiums increased in fiscal year 2021 due to both an increase in costs and an increase in the number of employees. The second area with a significant increase is

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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accrued vacation expense, which went up by nearly \$1 million over prior year as a result of fewer vacation days used by staff.

Other operating expenses totaled \$40,444,012 and represents the second largest category of expenditures. This category includes such UFJP costs as lease expense, utilities, medical supplies, office supplies, temporary services, repairs and maintenance, and depreciation and amortization on capital assets. The change from last year was an increase of \$4,807,551 or 13.5%. The Wildlight facility which opened in December 2019 added \$2,140,000 in expense to many of the items in this category as a result of being fully open for a full year in fiscal year 2021 as compared to ramping up for part of last year. The most significant increases at Wildlight were \$953,000 in depreciation expense, \$402,000 in utilities and maintenance expense, \$290,000 in various supply expenses, and \$282,000 in fees. 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 2021 that amount was nearly \$1.3 million and is included in the other operating expense category as a credit or offset. However, this is about \$2.5 million below last year's contribution of over \$3.7 million, thus creating the overall increase in the other operating expense category. Other expense items that had significant increases over last year, and unrelated to Wildlight, are fees, with an additional \$453,000; supplies, up an additional \$181,000; and subscription which were up by \$131,000.

The expense categories representing the Dean's Fund decreased \$3,177,553. Nearly all of this decrease, \$2.5 million, can be attributed to the deficit funding provided to the Wildlight practices as explained above. Deficit funding provided to other programs also fell by another \$300,000. The other large decrease in the Dean's fund was a \$191,000 reduction in subscription expense. The program support accounts had a decrease of \$63,789 or 6.7%.

*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 \$1,283,257. Investment income/(loss) fell by \$1,059,000 and was actually a small loss of \$49,017 for fiscal year 2021. The interest rate environment continues to be at historical low levels as a result of the pandemic. For the current year there was an unrealized loss of \$431,417 in the amount invested in the UFJP Special Purpose Investment Account (SPIA) with the state of Florida as opposed to last year when there was an unrealized gain of \$330,007. Interest income also dropped by just under \$300,000 this year as there was less cash on average to invest throughout the year and lower rates of return. Interest expense jumped by 67%, from \$496,598 in fiscal year 2020 to \$829,220 in fiscal year 2021. The reason for the increase is that in fiscal year 2020 the long-term debt balance gradually increased throughout the year, from \$8,005,868 on July 1, 2019 to \$28,260,000 on June 30, 2020. Whereas in fiscal year 2021 the outstanding amount remained at the \$28,260,000 until June 2021 when a \$935,000 payment was made. Also impacting the interest expense was the interest rate swap that caused the Company to record higher interest expenses throughout the year. The interest rate swap was entered in February 2020 when the variable one-month LIBOR was at 1.7%. The subsequent decrease in the rate environment created the need for the Company to record an unrealized loss in fiscal year 2020 for the change in mark to market of the interest rate swap, in the amount of



UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Management's Discussion and Analysis - Continued*

\$5,341,024, and a corresponding liability. In fiscal year 2021, due to the change in the interest rate, the liability was reduced and the Company recorded an unrealized gain of \$2,161,494. 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. In fiscal year 2020 the Company received federal assistance revenue of \$5 million from the federal government as part of the CARES Act Provider Relief Fund program for assistance with the COVID-19 pandemic. No funds were received in fiscal year 2021.

*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 \$6,836,746 or 4.5% to \$160,399,809 for fiscal year 2021. There was a 3.6% increase in faculty physician FTEs, going from 447.4 in fiscal year 2020 to 463.4 in fiscal year 2021. This caused an approximately \$4,200,000 increase in expense. The fringe benefit rate charged by the University on faculty salaries decreased from 18.8% to 18.0%, which would have lowered the expense by about \$900,000. However, these saving were offset by the increase in physician FTEs as well as increases to salaries. The fringe benefit rate for the UF TEAMS employees (non-faculty staff) increased by an average of 9% which led to a \$400,000 rise in costs. The remainder of the increase is due to equity increases for the UF faculty and staff and an increase in the number of UF TEAMS staff.

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

	2021	2020	Increase (Decrease)	Percent Change
NET CASH PROVIDED BY				
OPERATING ACTIVITIES:	\$ 134,649,970	\$ 175,173,191	\$ (40,523,221)	-23.13%
NET CASH USED IN NONCAPITAL				
FINANCING ACTIVITIES	(160,399,809)	(148,563,063)	(11,836,746)	7.97%
NET CASH PROVIDED BY (USED IN) CAPITAL				
AND RELATED FINANCING ACTIVITIES	5,257,580	(6,125,150)	11,382,730	-185.84%
NET CASH PROVIDED BY (USED IN)				
INVESTING ACTIVITIES	(49,017)	8,310,392	(8,359,409)	-100.59%
NET INCREASE (DECREASE) IN				
CASH AND CASH EQUIVALENTS	(20,541,276)	28,795,370	(49,336,646)	-171.34%
CASH AND CASH EQUIVALENTS,				
BEGINNING OF YEAR	58,343,462	29,548,092	28,795,370	97.45%
CASH AND CASH EQUIVALENTS,				
END OF YEAR	\$ 37,802,186	\$ 58,343,462	\$ (20,541,276)	-35.21%

*Cash Provided by Operating Activities:* Net cash provided by operating activities for the year was \$134,649,970, reflecting a decrease of \$40,523,221 or approximately 23.1% from last year. Total cash receipts from operating activities dropped from \$319,499,947 in fiscal year 2020 to \$286,138,060 in fiscal year 2021. As with prior years, the largest source of cash, at \$235,500,360 was from clinical services provided by UF faculty and advanced practice providers to patients, as

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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well as from UPL and LIP payments. The funds for these services which come from Medicare, Medicaid, other insurers and institutions as well as patients themselves, decreased by \$24,536,851 or 9.4%, the result of the delay in receipt of UPL funds. The next highest source of cash was from receipts from affiliates which, at \$44,353,944 is \$7,817,190 less than 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, in early fiscal year 2020 and having paid all the funding that was due for fiscal year 2020 on time. Receipts from other revenue decreased from \$2,953,004 in fiscal year 2020 to \$1,988,620 in fiscal year 2021.

The total cash expended for operating activities rose by \$7,161,334 to \$151,488,090. By far, the largest use of cash for operating activities was in salaries and benefits of staff which amounted to \$112,533,972 and represented an increase of \$9,592,722 or 9.3% from last year. Payments for operating expenses rose by \$809,954 to \$31,514,068. However, cash outflows for the Dean's Fund decreased by \$3,177,553 to \$6,547,793. This was related to Wildlight funding and 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 \$153,563,063 to \$160,399,809, representing an increase of \$6,836,746 or 4.5%. A number of factors contributed to this, including 16 more faculty physician FTEs in fiscal year 2021, faculty raises, and an increase in the fringe benefit rate paid to the University on UF TEAMS (non-faculty staff) salary payments. Please see the explanation in the Transfers section for more details. In fiscal year 2020 there was a new cash inflow of \$5,000,000 of federal assistance receipts. This was funding from the federal government for assistance with the COVID-19 pandemic. No similar type funds were received in fiscal year 2021.

*Cash Provided by (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 \$2,978,200 was significantly down from the \$25,953,480 that was spent in the prior year. The vast majority of the cash used in fiscal year 2020 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 2021. 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 last fiscal year from the issuance of long-term debt, with no further receipts this year. In June 2021, the Company received proceeds of \$10 million from a short-term line of credit. This borrowing was necessary to ensure sufficient operating cash at the end of the year and into the new fiscal year while waiting to receive the UPL payments. A principal payment of \$935,000 was made on the long-term debt. Interest expense paid on debt was \$829,220 in fiscal year 2021, a notable increase from the \$496,598 paid in fiscal year 2020.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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*Cash Provided by (Used in) Investing Activities:* The cash provided by investing activities in fiscal year 2021 fell by over \$8.3 million from the cash provided in fiscal year 2020. At the end of fiscal year 2019 a short-term loan of \$7.3 million was made to Shands Jacksonville. This loan was repaid in early fiscal year 2020, thus providing cash from investing activities last year, which did not reoccur in the current year. Interest earnings received fell from \$680,384 in fiscal year 2020 to \$382,400 in fiscal year 2021. Details related to interest earnings were previously explained in the Non-Operating Items section.

### ECONOMIC OUTLOOK

The worldwide challenges related to the coronavirus pandemic continued from Fiscal Year 2020 into Fiscal Year 2021. This unprecedented public health issue that began in March 2020 in the United States has continued to impact every aspect of the global economy including the healthcare industry. Vaccinations became available in January 2021 and initially helped to reduce the number of positive cases. However, a variant of the original virus has now increased the number of positive cases, mostly among those unvaccinated. The financial impact to UFJP and Shands Jacksonville has been limited partially as a result of Federal stimulus programs. However, the impact to the overall state and local economies has been severe. The state's unemployment rate since February 2020's 3.3% rose to a high of 14.2% in May 2020 and has since lowered to 5.1% in August 2021 with the service/tourist industry slowly rebounding. Vaccinated patients have begun visiting doctor's offices and many elective procedures are being performed. The United States continues to lead all countries in the world with the highest number of positive COVID-19 cases with over forty million cases and number of related deaths over six hundred fifty 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 7% 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 delay and cancelation of other services has continued to negatively impact the finances of healthcare systems and providers.

Federal stimulus packages and programs were made available to corporations beginning in April 2020 to help offset the financial impact of the pandemic. These programs included loans, grants, payroll tax relief and other provisions. Healthcare providers received Medicare advance payments in 2020 to help with cash flow and repayment of these funds began in April 2021. 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 with documentation of qualified use by June 30, 2021. 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. The initial stimulus programs and possible additional programs could further increase the national debt and negatively impact the economy for several years in the future.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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Despite the ongoing virus spread, about 300,000 new residents moved to Florida last year and the state has had three of the ten fastest growing metropolitan areas in the nation. Based on the 2020 census, the Northeast Florida and Southeast Georgia population now exceeds 1.7 million people. The primary service area for UFJP consists of Duval, Nassau, Clay, St. Johns and Baker counties in Northeast Florida. Housing construction and home sales have accelerated as a consequence of low interest rates and high demand for property in the area. However, shortage of labor and construction materials have begun to impact the overall construction industry. Also due to the pandemic, the Federal Reserve has held the effective federal funds rate at or below 0.10% since April 2020 and all other rates have remained at historical lows. Apartment occupancy remains high but rent delinquencies have increased due to higher unemployment from the start of the pandemic. Demand for retail and office space has continued to decrease with many companies continuing to utilize an online shopping platform and remote work structure.

As of June 2021, 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 4.8 million eligible Medicaid enrollees as of June 2021 with 78% participating in a managed care arrangement. The Northeast Florida area (Region 4) had a total of 496,000 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 paying a preset capitation based on the entire Medicaid membership in their region. For FY 2021, as with FY 2020, the practice plan received additional funds related to a 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 evidenced by previous attempts to changing the methodology such as the proposed Medicaid Fiscal Accountability Rule (MFAR) which would have significantly changed the 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 may address at a later time.

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

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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new hospital bed tower with 92 beds in May 2017. Occupancy and utilization of the North campus facilities has continued to grow with high inpatient occupancy and increased outpatient visits and surgical procedures. 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. Shands Jacksonville opened an outpatient rehabilitation clinic and adjacent YMCA fitness center in the Wildlight community in October 2020. 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 at the beginning of 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. UFJP has continued to provide this service delivery model, but volumes have begun shifting back to in person clinic visits.

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 and hospital ancillary services buildings in Nassau County. For the coming year, UFJP and Shands Jacksonville plan to further expand their presence in the Northeast Florida market. A new Brain Wellness Program will be opened with supplemental funding provided through the Gary Sinise Foundation / Avalon Network and will focus on services for military veterans. 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 as well as collaboration with another physician group for the opening 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 continued Meaningful Use until 2021 as the final year. These "Pay for Performance Programs" have been significant for UFJP with over \$34.3 million received from PQRS, quality and shared savings programs and over \$12.7 million in Meaningful use since inception. The Quality/Pay for Performance models going forward with commercial payers will be primarily a shared-savings model which UFJP already participates. With the increased utilization of telemedicine, both governmental and commercial payers temporarily

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

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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.

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. Additional modules were subsequently implemented including population health management, online patient portal and medical records, integrated eligibility and enrollment, electronic refunds and integrated lab orders and results.

In 2020, a number of Epic enhancements were implemented including a new orthopedic module and 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. 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. A Social Determinants of Health module was configured and implemented in 2020. Also in 2020, COVID-19 related changes were completed in the information system applications including updated check-in screenings, enhanced discharge information, telemedicine structure completed for all providers, and lastly, remote Epic training with the use of recorded content.

In 2021, additional COVID-19 related changes were made as guidance was updated from various agencies. Patient self-service kiosks were installed in some clinics offering the Epic Welcome module to allow patients to complete registration and check-in. Additional clinics are scheduled to receive the Kiosks along with upgraded no-contact arrival capabilities. The credit card integration project was completed in 2021 with standardized machines and processing to post copays and self-pay balances automatically to the patient's account upon receipt. COVID-19 specific vaccination services were incorporated in scheduling, tracking and billing modules. A dual authentication application was implemented in 2021 for offsite network access.

Future Enhancements in EPIC are planned to include Single Billing Office (SBO), Revenue Guardian, Willow Ambulatory, Aunt Bertha and a financial assistance analysis application. 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 will apply charging parameters (guardrails) for both physician and hospital billing. Willow Ambulatory assists providers in managing specialty pharmaceuticals. Aunt Bertha is a module to assist with tracking social determinants of health. Lastly, a lease accounting application is planned in order to implement the new GASB reporting requirements for leases.

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

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

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**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>2021</i>	<i>2020</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 37,802,186	\$ 58,343,462
Patient accounts receivable, net of estimated uncollectibles and contractual adjustments of \$49,407,725 in 2021 and \$45,184,924 in 2020	13,194,920	10,371,651
Other receivables	63,237,015	19,347,484
Prepaid expenses and other current assets	2,292,384	1,890,897
Due from Shands Jacksonville Medical Center, Inc.	510,947	469,279
Due from Faculty Clinic, Inc.	63,005	112,520
TOTAL CURRENT ASSETS	<u>117,100,457</u>	<u>90,535,293</u>
<b>CAPITAL ASSETS:</b>		
Land	3,748,493	3,748,493
Building	23,348,945	23,226,003
Equipment	33,981,963	31,825,302
Computer software	15,535,522	15,504,954
Leasehold improvements	18,115,905	17,967,166
Construction in progress	616,935	323,966
TOTAL CAPITAL ASSETS	<u>95,347,763</u>	<u>92,595,884</u>
Accumulated depreciation and amortization	<u>(54,697,010)</u>	<u>(48,646,445)</u>
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>40,650,753</u>	<u>43,949,439</u>
TOTAL ASSETS	<u>\$ 157,751,210</u>	<u>\$ 134,484,732</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Statements of Net Position - Continued*

	<i>June 30,</i>	
	<i>2021</i>	<i>2020</i>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Due to University of Florida	\$ 467,444	\$ 104,640
Due to Shands Jacksonville Medical Center, Inc.	18,942	91,563
Due to Shands at the University of Florida, Inc.	400,511	244,662
Accounts payable	9,911,538	7,006,993
Line of credit	10,000,000	-
Accrued compensation and benefits	21,160,721	15,705,697
Third-party advanced payments	3,420,344	4,412,439
Current portion of long-term debt and capital lease obligations	980,000	935,000
TOTAL CURRENT LIABILITIES	<u>46,359,500</u>	<u>28,500,994</u>
<b>OTHER LIABILITIES:</b>		
Long-term debt and capital lease obligations, less current portion	26,345,000	27,325,000
Estimated fair value of interest rate swap	3,179,530	5,341,024
TOTAL LIABILITIES	<u>75,884,030</u>	<u>61,167,018</u>
<b>COMMITMENTS AND CONTINGENCIES -</b>		
Notes I and K		
<b>NET POSITION:</b>		
Net investment in capital assets	13,325,753	15,689,439
Unrestricted	68,541,427	57,628,275
TOTAL NET POSITION	<u>81,867,180</u>	<u>73,317,714</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 157,751,210</u>	<u>\$ 134,484,732</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
<b>OPERATING REVENUE:</b>		
Patient service revenue, net of contractual allowances and discounts	\$ 315,585,499	\$ 291,404,669
Provision for bad debts	(34,189,730)	(31,695,208)
Net patient service revenue	281,395,769	259,709,461
Other revenue	3,798,106	4,579,579
Charity care settlement	4,245,132	4,293,598
Contributions from Shands Jacksonville Medical Center, Inc.	44,050,065	42,735,567
Management and other fees	50,004	45,000
TOTAL OPERATING REVENUE	333,539,076	311,363,205
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	117,988,996	106,998,723
Other operating expenses	40,444,012	35,636,461
Dean's Fund	6,547,793	9,725,346
Program support accounts	892,257	956,046
TOTAL OPERATING EXPENSES	165,873,058	153,316,576
OPERATING INCOME	167,666,018	158,046,629
<b>NONOPERATING REVENUE (EXPENSES):</b>		
Interest expense	(829,220)	(496,598)
Investment income (loss)	(49,017)	1,010,392
Change in mark-to-market of interest rate swap	2,161,494	(5,341,024)
Loss on disposal of property and equipment	-	(14,105)
Federal assistance revenue	-	5,000,000
NET NONOPERATING REVENUE	1,283,257	158,665
INCREASE IN NET POSITION BEFORE TRANSFERS	168,949,275	158,205,294
<b>TRANSFERS:</b>		
Transfers to the University of Florida, College of Medicine	(160,399,809)	(153,563,063)
INCREASE IN NET POSITION	8,549,466	4,642,231
NET POSITION, BEGINNING OF YEAR	73,317,714	68,675,483
NET POSITION, END OF YEAR	\$ 81,867,180	\$ 73,317,714

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Statements of Cash Flows*

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from and on behalf of patients	\$ 235,500,360	\$ 260,037,211
Receipts from other revenue	1,988,620	2,953,004
Receipts from charity care settlement	4,245,132	4,293,598
Receipts from affiliates	44,353,944	52,171,134
Other receipts	50,004	45,000
Payments to and on behalf of employees	(112,533,972)	(102,941,250)
Payments for operating expenses	(31,514,068)	(30,704,114)
Payments to Dean's Fund	(6,547,793)	(9,725,346)
Payments to program support accounts	(892,257)	(956,046)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<b>134,649,970</b>	<b>175,173,191</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments to the University of Florida, College of Medicine	(160,399,809)	(153,563,063)
Federal assistance receipts	-	5,000,000
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	<b>(160,399,809)</b>	<b>(148,563,063)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(2,978,200)	(25,953,480)
Proceeds from sales of capital assets	-	70,796
Proceeds from the issuance of long-term debt	-	21,144,132
Proceeds from the issuance of short-term debt	10,000,000	-
Repayment of long-term debt	(935,000)	(890,000)
Interest paid	(829,220)	(496,598)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<b>5,257,580</b>	<b>(6,125,150)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received and other costs	(49,017)	1,010,392
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>(49,017)</b>	<b>8,310,392</b>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>(20,541,276)</b>	<b>28,795,370</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<b>58,343,462</b>	<b>29,548,092</b>
CASH AND CASH EQUIVALENTS, END OF YEAR	<b>\$ 37,802,186</b>	<b>\$ 58,343,462</b>

See accompanying notes to financial statements.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

*Statements of Cash Flows - Continued*

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 167,666,018	\$ 158,046,629
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,089,399	5,499,122
Provision for bad debts	34,189,730	31,695,208
Increase (decrease) in cash due to change in:		
Patient accounts receivable, net	(37,012,999)	(32,002,871)
Other receivables	(43,889,531)	(5,403,601)
Prepaid expenses and other current assets	(401,487)	376,071
Due to/from Shands Jacksonville Medical Center, Inc., net	41,560	10,200,403
Due to/from Faculty Clinic, Inc., net	49,515	(79,747)
Due to University of Florida	362,804	(535,089)
Accounts payable	3,092,032	(1,092,846)
Accrued compensation and benefits	5,455,024	4,057,473
Third-party advanced payments	(992,095)	4,412,439
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 134,649,970</u>	<u>\$ 175,173,191</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset additions in accounts payable	<u>\$ 154,621</u>	<u>\$ 342,108</u>

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements*

#### *Years Ended June 30, 2021 and 2020*

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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, 2021, 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, 2021 and 2020*

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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, 2021 and 2020*

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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 \$5,725,094 and \$4,385,289 at June 30, 2021 and 2020, 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, 2021 and 2020.

*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 investment income, positive changes in the fair value of an interest rate swap agreement 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, investment loss, 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, 2021, management does not believe the Company holds any uncertain tax positions. Tax returns for the years ended June 30, 2018 through 2021 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



UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

substantially all leases with a maximum possible term exceeding 12 months. The lease liability is measured at the present value of payments made during the lease term. In later periods, the lessee should amortize the discount of the lease liability and report it as an outflow of resources (interest expense) for the period. The lease asset is measured as the sum of the amount of the initial measurement of the lease liability, lease payments made to the lessor at/before the beginning of the lease term, and any initial direct costs. A lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset and reported as an amortization expense. The Statement requires a disclosure of the general description of the leasing arrangements within the footnotes to the financial statements. For leases that have been significantly affected by the existence of related parties, the Statement indicates that accounting should be modified as necessary, and the nature and extent of these transactions should be disclosed. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021; early adoption is permitted. Management adopted this Statement effective July 1, 2021.

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>2021</i>	<i>2020</i>
Gross direct patient service charges	\$ 670,633,902	\$ 611,984,765
Indirect patient service revenue	22,020,846	20,506,535
	<u>692,654,748</u>	<u>632,491,300</u>
Less: Estimated contractual adjustments	(377,069,249)	(341,086,631)
Estimated uncollectible accounts	(34,189,730)	(31,695,208)
	<u>(411,258,979)</u>	<u>(372,781,839)</u>
Net patient service revenue	<u>\$ 281,395,769</u>	<u>\$ 259,709,461</u>

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

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
Third party payers	\$ 278,387,376	\$ 256,677,621
Patients responsibility, including self insured	37,198,123	34,727,048
	<u>\$ 315,585,499</u>	<u>\$ 291,404,669</u>

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2021 and 2020*

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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 2021 and 2020 includes \$41,722,711 and \$44,184,682, respectively, related to the UPL program. Other receivables at June 30, 2021 and 2020 included \$54,381,319 and \$12,301,274, 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 (IGT) 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, 2021 and 2020 includes \$21,559,228 and \$21,444,385, 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, 2021 and 2020

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, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Patient accounts receivable based on established charges	\$ 62,602,645	\$ 55,556,575
Estimated reserve for contractual allowances and uncollectible accounts	(49,407,725)	(45,184,924)
Patient accounts receivable, net	<u>\$ 13,194,920</u>	<u>\$ 10,371,651</u>

Net patient accounts receivable as of June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Insurance carriers under commercial plans	\$ 3,510,043	\$ 2,349,370
Managed care plans	2,016,369	1,354,876
Medicare	1,536,787	3,474,501
Medicaid	1,486,787	1,075,791
Patients, including self insured	3,957,882	1,549,397
Other	687,052	567,716
	<u>\$ 13,194,920</u>	<u>\$ 10,371,651</u>

The activity relating to the estimated allowance for contractual adjustments and uncollectible accounts for the years ended June 30, 2021 and 2020, is summarized as follows:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 45,184,924	\$ 44,056,646
Provision for bad debts	34,189,730	31,695,208
Charge-offs	(29,966,929)	(30,566,930)
Ending balance	<u>\$ 49,407,725</u>	<u>\$ 45,184,924</u>

The Company's estimated allowance for contractual adjustments and uncollectible accounts increased from June 30, 2020 to June 30, 2021 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, 2021 and 2020*

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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, 2021 and 2020 was \$648,315 and \$594,289, 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 \$50,004 and \$45,000 for the years ended June 30, 2021 and 2020, respectively. These amounts are included in management and other fees in the accompanying statements of revenue, expenses and changes in net position.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2021 and 2020*

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The Company had a receivable from Faculty Clinic of \$63,005 and \$112,520 at June 30, 2021 and 2020, respectively.

*Shands Jacksonville:* The University and the Company have entered into numerous annual agreements with Shands Jacksonville. At June 30, 2021 and 2020, the Company had a receivable from Shands Jacksonville of \$510,947 and \$469,279, respectively, and a payable to Shands Jacksonville of \$18,942 and \$91,563 at June 30, 2021 and 2020, 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 \$2,229,573 in 2021 and \$763,670 in 2020. 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, 2021 and 2020 were \$42,883,943 and \$41,301,818, 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, 2021 and 2020, the Company received \$1,166,122 and \$1,433,749, 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 \$1,519,219 and \$1,490,265 in 2021 and 2020, respectively.

*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 have determined should be allocated to the Company. As of June 30, 2021 and 2020, the Company owed Shands at UF \$400,511 and \$244,662, 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 2021 and 2020 were \$89,566 and \$283,890, respectively, and are included in other operating expenses in the accompanying statements of revenue, expenses and changes in net position.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2021 and 2020*

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*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, 2021 and 2020 were \$1,193,357 and \$1,257,235, respectively. Premiums paid to HEIC for the years ended June 30, 2021 and 2020 were \$500,387 and \$275,187, respectively. No amounts were due to the Self-Insurance Program or the HEIC at June 30, 2021 and 2020.

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

#### NOTE F--CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2021 and 2020 is as follows:

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

	<i>Balance at June 30, 2020</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2021</i>
Capital assets:					
Land	\$ 3,748,493	\$ -	\$ -	\$ -	\$ 3,748,493
Building	23,226,003	122,942	-	-	23,348,945
Equipment	31,825,302	2,036,543	-	120,118	33,981,963
Computer software	15,504,954	30,568	-	-	15,535,522
Leasehold improvements	17,967,166	129,885	(38,834)	57,688	18,115,905
Construction in progress	323,966	470,775	-	(177,806)	616,935
Total capital assets	92,595,884	2,790,713	(38,834)	-	95,347,763
Accumulated depreciation:					
Building	2,152,218	776,388	-	-	2,928,606
Equipment	20,595,350	3,258,580	-	-	23,853,930
Computer software	13,569,558	1,163,001	-	-	14,732,559
Leasehold improvements	12,329,319	891,430	(38,834)	-	13,181,915
Total accumulated depreciation	48,646,445	6,089,399	(38,834)	-	54,697,010
Capital assets, net	\$ 43,949,439	\$ (3,298,686)	\$ -	\$ -	\$ 40,650,753
	<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

Estimated costs to complete construction in progress at June 30, 2021 were approximately \$624,000 and relate to single billing office technology, facility renovations and related projects.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

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, 2021 and 2020 is as follows:

	<i>Balance at June 30, 2020</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2021</i>	<i>Amounts Due Within One Year</i>
Notes from direct borrowings:					
Healthcare Facilities Revenue Note, Series 2019A	\$ 1,915,000	\$ -	\$ (935,000)	\$ 980,000	\$ 980,000
Healthcare Facilities Revenue Note, Series 2019B	26,345,000	-	-	26,345,000	-
Total Long-Term Debt	<u>\$ 28,260,000</u>	<u>\$ -</u>	<u>\$ (935,000)</u>	<u>\$ 27,325,000</u>	<u>\$ 980,000</u>
	<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>

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



## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### Notes to Financial Statements - Continued

#### Years Ended June 30, 2021 and 2020

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 0.64% and 0.71% for the Series 2019A Note and the Series 2019B Note, respectively, at June 30, 2021 and 0.71% and 0.78%, respectively, at June 30, 2020. 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.

The Company has a revolving line of credit with a bank in the amount of \$10,000,000. The line of credit has an expiration date of February 1, 2023. As of June 30, 2021, the entire \$10,000,000 was outstanding. There were no amounts outstanding on this line of credit as of June 30, 2020. Subsequent to June 30, 2021, the entire outstanding balance of \$10,000,000 was repaid in August 2021.

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, 2021 and 2020. 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.

The estimated future debt service requirements of the Series 2019 Notes, based on the interest rate in effect at June 30, 2021 and the principal balance outstanding at the date, are as follows:

<i>Year Ending</i> <i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2022	\$ 980,000	\$ 203,638	\$ 1,183,638
2023	1,000,000	188,240	1,188,240
2024	1,000,000	181,095	1,181,095
2025	1,000,000	173,950	1,173,950
2026	1,000,000	166,805	1,166,805

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2027-2031	5,600,000	719,700	6,319,700
2032-2036	6,200,000	511,775	6,711,775
2037-2041	6,500,000	283,843	6,783,843
2042-2044	4,045,000	58,483	4,103,483
	<u>\$ 27,325,000</u>	<u>\$ 2,487,529</u>	<u>\$ 29,812,529</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 \$27,325,000 and \$28,260,000 at June 30, 2021 and 2020, respectively. The Company also paid 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 statements of net position at its aggregate fair value (a liability of \$3,179,530 and \$5,341,024 at June 30, 2021 and 2020, respectively) and the change in the value of the swap is reflected as a component of nonoperating expense in the statements of revenue, expenses and changes in net position for the years ended June 30, 2021 and 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.

NOTE I--LEASES

The Company pays for space leased by the University under various operating lease agreements which also include leases with Shands Jacksonville and Faculty Clinic. The terms of these leases range from a month-to-month lease to 40-year leases currently ending in fiscal year 2047. These leases have various renewal options. The following are future minimum rental payments required as of June 30, 2021 under operating leases that have original or remaining non-cancelable lease terms in excess of one year:

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

*Notes to Financial Statements - Continued*

***Years Ended June 30, 2021 and 2020***

<u>Year Ending June 30,</u>	
2022	\$ 8,384,776
2023	6,257,213
2024	5,652,936
2025	4,116,403
2026	2,752,268
2027-2031	7,811,369
2032-2036	919,047
2037-2041	330,000
2042-2046	330,000
2047	33,000
Total future minimum lease payments	<u>\$ 36,587,012</u>

Lease expense was \$10,434,259 and \$10,494,314 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020 as the Company’s contributions to the Plan are encompassed under the Company’s required funding of the University’s Fringe Benefit Pool.

In addition, several UF physicians are participants in a defined benefit plan through the State of Florida’s Optional Retirement Plan. For the years ended June 30, 2021 and 2020, 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, 2021. Full vesting of the Company contributions occurs after five years of service. Retirement plan expense for the Company for this retirement plan was \$2,101,321 and \$1,888,945 for the years ended June 30, 2021 and 2020, respectively.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2021 and 2020*

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#### 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.

*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

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2021 and 2020*

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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 disease 2019 (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 implemented the Medicare Accelerated and Advanced Payment Programs which speeds Medicare payments to providers in times of emergency, based on historical payments. Providers were eligible to request up to 100% of Medicare payment amounts for a three-month period. Under the Continuing Appropriations Act, 2021 and Other Extensions Act, repayment is to begin one year from the issuance date of each provider or supplier's accelerated or advance payment. After that first year, CMS will automatically recoup 25 percent of Medicare payments otherwise owed to the provider or supplier for eleven months. At the end of the eleven-month period, recoupment will increase to 50 percent for another six months. The Company received \$4,412,439 of advanced payments during the year ended June 30, 2020. CMS has recouped \$992,095 of advanced payments as of June 30, 2021. Remaining funds received of \$3,420,344 are reflected as a current liability as of June 30, 2021.

#### 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 2021 and 2020 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 \$22,855,000 in 2021 and \$29,357,000 in 2020 at the Company's established rates. Charges foregone related to other charity patients were approximately \$23,519,000 in 2021 and \$24,920,000 in 2020. The estimated direct and indirect cost of providing these services totaled approximately \$21,147,000 and \$25,158,000 in 2021 and 2020, 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 and amounts due to or from other organizations are at fair value, or approximate fair value, due to the nature and short-term maturities of these instruments.

## UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2021 and 2020*

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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--FAIR VALUE MEASUREMENT

GASB Statement No. 72 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As such, GASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB describes fair value as an exit price where measurement assumes a transaction takes place in an entity's principal market, or most advantageous market in the absence of a principal market, and the market participants are acting in their economic best interests. GASB Statement No. 72 requires an entity to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques should be applied consistently and maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

*Valuation Hierarchy:* GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels which are defined as follows:

- *Level 1:* Inputs to the valuation technique are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation technique, other than quoted prices within *Level 1*, that are observable for an asset or liability, either directly or indirectly.
- *Level 3:* Inputs to the valuation technique are unobservable.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

At June 30, 2021 and 2020, the Company had no assets meeting the criteria for disclosure.

The following table presents liabilities reported at fair value as of June 30, 2021 and 2020, and their respective classification under the GASB Statement No. 72 valuation hierarchy:

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

*Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2021:*

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Liabilities:				
Interest rate swap agreement	\$ 3,179,530	\$ -	\$ -	\$ 3,179,530

*Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2020:*

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Liabilities:				
Interest rate swap agreement	\$ 5,341,024	\$ -	\$ -	\$ 5,341,024

A certain portion of the inputs used to value the Company's interest rate swap agreements are unobservable inputs. As a result, the Company has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

NOTE O--CORONAVIRUS DISEASE 2019 IMPACT

In March 2020, the outbreak of COVID-19 was declared a public health emergency (PHE) published by the Department of Health and Human Services (HHS) and declared a national pandemic by the World Health Organization. The COVID-19 PHE and pandemic has severely restricted the level of economic activity around the world and caused significant volatility in financial markets. The healthcare industry has been impacted due to general decreases in non-emergency patient volumes, cancellations and delays of elective medical procedures, and rising costs associated with obtaining personal protective equipment and other medical supplies, among other factors.

Government support, including the CARES Act, provided essential funding to hospitals and other healthcare entities. For the year ended June 30, 2020, the Company received \$5,000,000 of CARES Act Provider Relief funding to prevent, prepare for and respond to coronavirus. The Company recognized the entire \$5,000,000 as revenue as of June 30, 2020 to offset estimated lost revenue and COVID-19 related expenses incurred based on the reporting guidelines published by the Department of Health and Human Services (HHS). HHS has revised reporting requirements numerous times on how providers should determine lost revenue and COVID-19 related expenses for reporting purposes. The reporting guidelines are subject to further changes

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

*Notes to Financial Statements - Continued*

*Years Ended June 30, 2021 and 2020*

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and interpretations. The future impact on operations and the financial statements cannot be reasonably predicted or estimated at this time.

The ultimate impact of COVID-19 on the financial position of the Company is uncertain, and the status of future government funding is unknown at this time.

**NOTE P--SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2021 financial statements except as noted in Notes G and O.



## **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>2021</i>	<i>2020</i>
REVENUE	\$ -	\$ -
EXPENDITURES:		
Salaries and benefits	161,391,393	152,112,876
Other operating expenses	1,160,205	1,343,781
Total expenditures	162,551,598	153,456,657
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	(162,551,598)	(153,456,657)
TRANSFERS:		
From University of Florida Jacksonville Physicians, Inc.	160,399,809	153,563,063
EXCESS (DEFICIT) OF REVENUE AND TRANSFERS OVER EXPENDITURES	(2,151,789)	106,406
NET DEFICIENCY, BEGINNING OF YEAR	11,955,029	12,061,435
NET DEFICIENCY, END OF YEAR	\$ 14,106,818	\$ 11,955,029



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
University of Jacksonville Physicians, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the University of Florida Jacksonville Physicians, Inc. (the Company) (a component unit of the University of Florida) as of and for the year ended June 30, 2021, 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 23, 2021.

***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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DYA, P.C.

Tampa, Florida  
September 23, 2021