



Audited Financial Statements (and Other Information)

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

Years Ended June 30, 2018 and 2017

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Audited Financial Statements (and Other Information)

Years Ended June 30, 2018 and 2017

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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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the University of Florida Jacksonville Physicians, Inc., as of June 30, 2018 and 2017, 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 16 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 20, 2018 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PYA, P.C.

Tampa, Florida
September 20, 2018

Management's Discussion and Analysis

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) of the University of Florida Jacksonville Physicians, Inc. (UFJP) (the Company) is intended to provide an overview of the financial results for the year ended June 30, 2018. This section, along with the financial statements and related footnotes, has been prepared by and is the responsibility of management. This discussion should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes.

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

OVERVIEW

The fiscal year 2018 financial results of the overall Jacksonville physicians' practice plan was a gain of \$2,115,628 and includes the \$4,336,121 increase in net position of UFJP and the \$(2,220,493) deficit of the Miscellaneous Gifts and Grants Fund (MG&G) outlined in the supplemental schedule. This represents over a \$5.4 million positive variance from budget, as the fiscal year 2018 budget was a deficit of \$(3,342,000) for the overall practice plan. While there were a number of factors behind the bottom-line that will be outlined in the following sections, one of the more significant impacts was the receipt of funding through the state's Low Income Pool (LIP) program in the amount of \$17.6 million. In addition, increased upper payment limit (UPL) funding for the year was also a significant factor in the positive results for the year as an additional \$7.5 million was recorded than planned. However, these positive factors were offset by an unplanned reduction to the UF Health Jacksonville (the Hospital) funding of \$6.5 million, additional accrued bonus expense of \$5.4 million, 2017 hurricane related losses of \$1.8 million and additional operational costs of \$5.6 million.

Total operating revenue for fiscal year 2018 increased by \$31,224,385 or about 12.4%. Patient service revenue net of provision for contractual adjustments and uncollected amounts surpassed last year's level by \$33,139,399, or 16.5%. Gross clinical revenue excluding charity increased by 10.5% with increases occurring in surgeries and deliveries. Improved payor mix with an increase in commercial volume also supported the increase in operating revenue. Pay for performance, value based and shared savings programs' receipts increased to \$4,575,000 from \$4,382,000 in 2017. Charity gross clinical revenue decreased 4.5% but did not impact the net received as charity reimbursement is under a fixed payment method with the Hospital. Revenue recorded for the UPL program that supplements Medicaid payments in return for enhanced access was above plan as mentioned in the previous paragraph and above last year by \$5.5 million with \$35.5 million recorded.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Total operating expenses including transfers to cover physician salaries and benefits increased from last year by \$29,525,410 or 11.8%. Of that total, a portion was from physician and staff personnel increases, salary increases and an increase in other operating expenses including lease expense and other operating costs for additional space at the North Campus.

Regarding changes in the statement of net position, total assets exceeded the prior year by \$1,976,023 or 2.2%. The largest changes were in cash, other receivables, due from affiliates and land. Cash decreased from the prior year as a result of the delay in the receipt of the final hospital funding, delay in UPL funding and the purchase of land. Other receivables and due from Shands Jacksonville increased as a result of the same delay in hospital and UPL funding. Land increased as a result of the purchase of a land parcel for the construction of an ambulatory medical services building in Nassau County, Florida.

Current liabilities decreased by \$1,510,098 or 7.0%. The categories with the greatest variance were accrued compensation and other accrued liabilities. The contingent liability of \$2.4 million reported as other accrued liability in prior years was settled and paid during 2018. Long term debt, mainly comprised of the outstanding balance of the tax-exempt bonds, decreased by \$850,000 primarily as a result of the annual principal payment on the bonds. The outstanding principal balance of the bonds on June 30, 2018 was \$3,655,000. The original amount of the issue was \$12,930,000 and will be paid off in 2022.

FINANCIAL ANALYSIS

The basic financial statements making up the annual report have been prepared in accordance with accounting principles generally accepted in the United States of America. One of the basic tenets followed by the Company is the accounting for income and expenses using the accrual basis of accounting wherein income and expenses are recorded when earned and incurred irrespective of the cash transaction. For a further discussion of accounting and reporting policies, see Note B to the financial statements.

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

Table 1 - Condensed Statements of Net Position - Assets

	2018	2017	Increase (Decrease)	Percent Change
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 38,743,604	\$ 50,799,326	\$ (12,055,722)	-23.7%
Patient accounts receivable, net	11,952,458	13,217,157	(1,264,699)	-9.6%

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

	2018	2017	Increase (Decrease)	Percent Change
Other receivables	13,626,844	7,942,370	5,684,474	71.6%
Prepaid expenses and other current assets	1,804,819	1,614,026	190,793	11.8%
Due from related parties	7,819,144	316,157	7,502,987	2373.2%
TOTAL CURRENT ASSETS	73,946,869	73,889,036	57,833	0.1%
CAPITAL ASSETS, NET	19,748,950	17,830,760	1,918,190	10.8%
TOTAL ASSETS	\$ 93,695,819	\$ 91,719,796	\$ 1,976,023	2.2%

The growth in assets this year at 2.2% is less than last year's increase of 8.7%. By far the largest asset this year is cash and cash equivalents at \$38,743,604. That balance however, reflects a decline of \$12,055,722 from last year and represents a 23.7% decrease. This category is now 41% of total assets. A number of factors contributed to this decrease and will be discussed in detail in the statement of cash flows section. There are three major items of note. First, payments from the Hospital were not received for the last couple of months of the year, representing about \$7.5 million. These payments were subsequently received in the early months of fiscal year 2019. Second, UPL payments of \$9.4 million had not been received as of June 30, 2018. These also were received in early fiscal year 2019. The Company also had significant capital asset purchases, for cash, this fiscal year of nearly \$6.7 million.

Table 2 - Capital Assets

	2018	2017	Increase (Decrease)	Percent Change
CAPITAL ASSETS, NET:				
Land and improvements	\$ 3,748,493	\$ 98,093	\$ 3,650,400	3721.37%
Building	715,752	800,002	(84,250)	-10.53%
Equipment	5,075,650	5,340,380	(264,730)	-4.96%
Computer software	5,181,869	6,558,804	(1,376,935)	-20.99%
Leasehold improvements	4,593,937	4,988,964	(395,027)	-7.92%
Construction in progress	433,249	44,517	388,732	873.22%
CAPITAL ASSETS, NET	\$ 19,748,950	\$ 17,830,760	\$ 1,918,190	10.76%

The Company's investment in capital assets, net of accumulated depreciation and amortization, remains the second largest asset category. At a 2018 fiscal yearend balance of \$19,748,950, the change from last year is an increase of \$1,918,190 or 10.8%, as asset additions were more than depreciation and amortization expense in the fiscal year. Approximately \$6,747,000 in capital assets were acquired during fiscal year 2018, offset by annual depreciation and amortization of \$4,812,981 as well as disposals. The composition of these assets continues to be largely of equipment and software to operate the information system network with revenue cycle and electronic health records (EHR) and of medical equipment used in outpatient clinics. The largest

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Management's Discussion and Analysis - Continued

acquisition in fiscal year 2018 was the purchase of approximately seven acres of land in Nassau County, Florida as the site for a new ambulatory medical services building (discussed in the Economic Outlook section) for \$3,650,400. Another \$366,000 has been spent, and is in the Construction in progress account related to the planning and design of the building itself. The medical office building on the new North Campus opened in March 2015, in which the Company leases space. About \$225,000 was added for that location in fiscal year 2018 for equipment and leasehold improvements as various services such as Orthopaedics and Urology expanded their operations. Approximately \$98,000 was spent for physical improvements, such as painting, flooring, etc., at various off campus clinic locations, as well as \$54,000 for building improvements at the Company owned facility housing the Lem Turner clinic. Additional capital assets purchased for the sites include \$31,400 for medical equipment and \$21,100 for office furniture and equipment. The department of Pediatrics spent \$117,800 for renovations at their cardiology clinic. The department of OB/GYN acquired two new ultrasounds for their southside location at a cost of about \$221,000. The division of Otolaryngology, within the department of Surgery, purchased \$178,000 worth of equipment to support expanded services.

Information system related expenditures added this year include approximately \$71,000 of payments to Epic for revenue cycle and EHR software. The Infor-Lawson accounting and human resources system was upgraded this year with \$170,000 spent on software and consultants and an additional \$77,000 spent for new servers and other hardware. An accounts payable electronic processing system was installed this year at a cost of \$17,400. Additional servers and storage devices for other systems were purchased for \$277,000. Space used by the application support staff was renovated at a cost of \$180,000 for leasehold improvements and furniture. The centralized call center migrated to a new system during fiscal year 2018 at a cost of about \$137,000 for licenses, software and equipment.

As a reminder, the cost of information system technology to connect the UF satellite clinics, provide appointment scheduling, point of service functions and the EHR resides on the Company's books. This is an enterprise system that provides an EHR, revenue cycle and ancillary system software for hospitals and physicians that interface seamlessly. The amount being recorded on the Company's books is an allocation of costs incurred based on the percentage of completion of the different subsystems with the assumption that software and consulting fees 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

	<i>2018</i>	<i>2017</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
Beginning accounts receivable	\$ 53,371,349	\$ 55,307,292	\$ (1,935,943)	-3.50%
Charges	565,658,254	511,846,137	53,812,117	10.51%
Payments	(216,533,224)	(185,618,320)	(30,914,904)	16.66%

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Management's Discussion and Analysis - Continued

	2018	2017	Increase (Decrease)	Percent Change
Write-off for contractual adjustments and bad debts	(349,336,267)	(328,163,760)	(21,172,507)	6.45%
Patient accounts receivable	53,160,112	53,371,349	(211,237)	-0.40%
Reserve for contractual adjustments and bad debts	(41,207,654)	(40,154,192)	(1,053,462)	2.62%
Total patient accounts receivable, net	\$ 11,952,458	\$ 13,217,157	\$ (1,264,699)	-9.57%

The fourth largest asset category is patient accounts receivable. Net of estimated uncollectibles and contractual adjustments, the balance in this category dropped by \$1,264,699 or 9.6% to \$11,952,458 at the end of fiscal year 2018. Gross patient service charges excluding the City Contract charity services grew by 10.5% over last year to \$565,658,254. The primary driver in this increase was an increase in UPL revenue, as well as a new source of funding through the state's LIP program. See Note C for a detailed description. The new LIP funding was nearly \$17.6 million for fiscal year 2018, while the increase in UPL was \$5.5 million. Direct patient service charges grew by nearly \$29 million. Office visits increased by 3.8%, surgical procedures increased by 5.5% and deliveries increased by a substantial 13.2%. Payments did rise from \$185.6 million to \$216.5 million representing an increase of 16.7%, the majority of which is from the new LIP funding and the additional UPL funding. Payor mix also improved again this year, continuing to produce a higher average collection rate per charge dollar. Write-off for contractual adjustments and bad debts decreased by 6.5% when compared to the prior year.

Other receivables are up significantly from last year at \$13,622,844, an increase of \$5,684,474 or 71.6% due to outstanding UPL revenue. UPL payments of \$9,428,811 from the managed care organizations and the state were delayed at year end, but were received in July and August 2018. Receivables for contract revenue decreased by about \$253,000 from fiscal year 2017, while miscellaneous other receivables increased by \$302,000.

Prepaid expenses and other current assets increased to \$1,804,819, a rise of 11.8% or \$190,793. Amounts due from related parties jumped this year from a balance of \$316,157 at year end 2017 to \$7,819,144 at year end 2018. The Hospital owed the Company for the April and May monthly payments, as well as a portion of the June payment. The April and May payments, totaling about \$6.9 million were received in July 2018.

Table 4 - Condensed Statements of Net Position – Liabilities

	2018	2017	Increase (Decrease)	Percent Change
CURRENT LIABILITIES:				
Due to related parties	\$ 2,011,837	\$ 1,362,742	\$ 649,095	47.63%
Accounts payable	7,181,919	8,551,740	(1,369,821)	-16.02%
Accrued compensation and benefits	9,928,486	8,352,701	1,575,785	18.87%

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

	<i>2018</i>	<i>2017</i>	<i>Increase (Decrease)</i>	<i>Percent Change</i>
Other accrued liabilities	-	2,400,000	(2,400,000)	-100.00%
Current portion of long-term debt	854,506	819,663	34,843	4.25%
TOTAL CURRENT LIABILITIES	19,976,748	21,486,846	(1,510,098)	-7.03%
OTHER LONG-TERM LIABILITIES:				
Long-term debt and capital lease obligations, less current portion	2,805,000	3,655,000	(850,000)	-23.26%
TOTAL LIABILITIES	\$ 22,781,748	\$ 25,141,846	\$ (2,360,098)	-9.39%

This year, there was a decrease in total liabilities, falling by \$2,360,098 or 9.4% to an ending balance of \$22,781,748. Accounts payable decreased by \$1,369,821 or 16.0% from fiscal year 2017 to a balance of \$7,181,919. 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. The primary reason for the decrease in this category was due to timeliness of payments at year end. Remaining in this total is an overpayment of \$3,995,170 made by the Agency for Health Care Administration (AHCA) in 2014 relating to UPL payments. AHCA has been notified with follow-up on several occasions and the Company is awaiting instructions.

Accrued compensation and benefits grew by \$1,575,785 or 18.9% since last year to a balance of \$9,928,486. Included in this account is the accrual of bonuses for staff in the amount of approximately \$660,000, as well as \$3,792,675 for accrued paid time off. The remainder is comprised of accruals for timing lags in payment for payroll.

Long-term debt and capital lease obligations is the third largest liability on the Company's books. The balance at yearend was \$3,659,506 including the current portion of \$854,506. This was reduced from last year's balance by payments of \$815,157 of which \$810,000 was the payment toward the outstanding principal balance of tax exempt Health Facilities Revenue Bonds that were issued in May 2002. The purpose of the bond issue was to refinance four outstanding notes and bonds and to fund capital expenditures that included clinic renovations and equipment software purchases. The principal balance of these bonds now stands at \$3,655,000. For further information on this debt including the redemption schedule which reflects accelerated payments until full retirement in 2022, see Note G in the financial statements.

Other accrued liabilities were eliminated, as the Company settled and repaid the agreed to amount related to a compliance issue.

Lastly, the amount due to related parties had a significant increase of \$649,095 or 47.6% to \$2,011,837. The largest component of this category is the payable to UF for various fees and other expenses, with a balance of \$1,041,951. This component also caused the majority of the change from prior year with a \$563,842 jump in the amount owed at year end. The invoice for

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

2018 Health Science Center IT services, at \$363,000 was not paid until July 2018. There was a small increase of \$65,157 in the amount due to the Hospital that represents a timing effect, as well as an increase of just over \$20,000 in the amount due to Shands at the University of Florida, Inc.

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

	2018	2017	Increase (Decrease)	Percent Change
OPERATING REVENUE:				
Net patient service revenue	\$ 233,981,610	\$ 200,842,211	\$ 33,139,399	16.50%
Other revenue	42,801,657	44,305,018	(1,503,361)	-3.39%
Charity care settlement	4,299,577	4,345,323	(45,746)	-1.05%
Contributions from Shands Jacksonville Medical Center, Inc.	1,936,402	2,003,195	(66,793)	-3.33%
Management and other fees	44,855	343,969	(299,114)	-86.96%
TOTAL OPERATING REVENUE	283,064,101	251,839,716	31,224,385	12.40%
OPERATING EXPENSES:				
Salaries and benefits	96,028,226	91,168,239	4,859,987	5.33%
Other operating expenses	35,372,589	34,662,025	710,564	2.05%
Contributions to affiliates, net	150,000	150,000	-	0.00%
Dean's Fund	6,227,810	5,014,951	1,212,859	24.18%
Program support accounts	877,552	917,827	(40,275)	-4.39%
TOTAL OPERATING EXPENSE	138,656,177	131,913,042	6,743,135	5.11%
OPERATING INCOME	144,407,924	119,926,674	24,481,250	20.41%
NONOPERATING REVENUE (EXPENSES):				
Interest expense	(70,386)	(38,751)	(31,635)	81.64%
Interest income	268,717	220,255	48,462	22.00%
Loss on disposal of property and equipment	(16,298)	(79,235)	62,937	-79.43%
Gain on sale of University of Florida Jacksonville Healthcare, Inc. membership in joint venture	654,545	5,169,850	(4,515,305)	-87.34%
NET NONOPERATING REVENUE	836,578	5,272,119	(4,435,541)	-84.13%
INCREASE IN NET POSITION BEFORE TRANSFERS	145,244,502	125,198,793	20,045,709	16.01%
TOTAL TRANSFERS	(140,908,381)	(118,126,106)	(22,782,275)	19.29%
INCREASE IN NET POSITION	\$ 4,336,121	\$ 7,072,687	\$ (2,736,566)	-38.69%

Operating Revenues: Total operating revenue net of the estimated provision for contractual adjustments and uncollected amounts surpassed last year's level by \$31,224,385 or 12.4%. The main increase was in net patient service revenue with growth of \$33,139,399 or 16.5%. Gross clinical charges did increase by \$53,812,117 or 10.5%. As noted in an earlier section, there was

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

growth in office visits, surgical procedures and deliveries. UPL funds saw an increase again this year, of just over \$5.5 million, while the new LIP funding added nearly \$17.6 million. Our continued participation in Pay for Performance plans resulted in over \$4.9 million recorded as revenue during the current fiscal year, a gain of nearly \$400,000. 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 5.7%, or \$1,022,408 to \$18,976,411. This was mainly the result of additional contracts with Baptist Health, related to various Pediatric programs.

Other revenue fell from \$44,305,018 to \$42,801,657 representing a decrease of \$1,503,361 or 3.4%. The largest source of revenue in this category is the funding from the Hospital for academic support, and items such as medical directorships that provide a specific service. For fiscal year 2018 this combined funding totaled just over \$36.1 million. However, this represented a decrease of nearly \$3,600,000 from the prior year. The hospital reduced the support funding by \$4,000,000 at the beginning of the fiscal year, and then by another \$3,000,000 at the end of the year. These reductions were offset by funding of some new commerce items that were added. EHR stimulus funding decreased by about \$327,000 in fiscal year 2018. Other miscellaneous revenue nearly doubled to \$4,636,269, a gain of almost \$2,156,000.

Contributions from Shands Jacksonville Medical Center, which accounts for funding from the Hospital to cover the deficits incurred by the Company of certain hospital-based clinics had a slight decrease of \$66,793. Management and other fees fell by just over \$299,000 to only \$44,855 as the Hospital consolidated the \$300,000 management fee they paid into the support funding.

Operating Expenses: Total operating expenses of \$138,656,177 represents an increase of \$6,743,135 or 5.1% over last year. Salaries and benefits for UFJP staff easily remain the most significant costs at almost 70% of the total operating expenses. These expenses amounted to \$96,028,226 for fiscal year 2018, \$4,859,987 or 5.3% greater than the prior year. A 2.0% raise for the staff, effective January 1, 2018 accounted for nearly \$700,000, plus there is an additional \$690,000 impact from the raise given to staff in mid-fiscal year 2017. Expenses for physician assistants and other physician extenders increased by nearly \$1.8 million as additional positions were added, especially to support expanded services related to the opening of the North bed tower. Included in the salaries and benefits category are the expenses paid for non UF physicians (locum tenens). This account had an additional \$796,000 in fiscal year 2018, primarily in support of the Ophthalmology department. There were small increases in some of the benefits accounts as well.

Other operating expenses totaled \$35,372,589 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 \$710,564 or 2.1%. The largest increase came from lease expense, at \$453,000 or 5.2%. Approximately one half of

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Management's Discussion and Analysis - Continued

the lease increase can be attributed to annual escalators built into the lease contracts. Additional space leased in the North MOB, as well as the new Amelia Island clinic added about \$100,000 to expense in fiscal year 2018. An additional \$100,000 of lease expense was previously reported as Dean's Fund expense, as the space was unused, but is now occupied by various medical departments. Purchases of supplies, both medical and office, contributed to \$270,000 of the increase. Additional repairs and maintenance costs added \$338,000. Other categories that had notable increases include temporary services at \$152,000 and postage and shipping of \$101,000. Other expense had a decrease of \$390,000 to help offset the overall increase.

Contribution to affiliates remained flat at \$150,000 for this fiscal year. The expense categories representing the Dean's Fund increased by over 24%, or 1,212,859 while the program support accounts had a small decrease of just over \$40,000. There were several main factors leading to the increase in the Dean's Fund expenses. Marketing and Advertising expense increased by \$511,000 mainly for advertising for services at the North Medical Office Building. Dean's Fund support, which is provided to the medical departments to support specific programs grew by nearly \$300,000. Fees for outside services went up by \$281,000.

Non-Operating Items: Non-operating consists of such items as interest expense, interest income and gains/losses on disposal of assets. Net non-operating revenues and expenses for the year was a gain of \$836,578. The largest item was the recording of the Company's gain on the sale of First Coast Advantage (FCA) of \$654,545. Although it was thought that the final settlement occurred last year, an additional payment was received related to FCA activities in fiscal year 2018, which was distributed to the partners at the previously agreed to ratio. Interest income rose from \$220,255 last year to \$228,717. The Company had over \$25 million invested in the UFJP Special Purpose Investment Account (SPIA) with the state of Florida until December 2017. During the months of December and January, \$20 million was withdrawn from SPIA and placed into the operating bank account when the company's operating cash account dropped to a very low level, as UPL payments had not yet been received. The interest rate on the SPIA account, at around 2%, is substantially higher than the rate earned on the operating account. Interest expense was \$70,386, rising by 81% over the prior year. A loss on the disposal of equipment in the amount of \$16,298 was recorded.

Transfers: Transfers represent payments to the University to cover the expenses of salaries and benefits of the faculty and other UF staff. The amount paid increased by \$22,782,275 or 19.3% to \$140,908,381 for fiscal year 2018. There was an 8.2% increase in faculty physician FTEs, going from 386.6 in fiscal year 2017 to 418.4 in fiscal year 2018. Raises provided to the faculty over the past two years, including a 3% increase effective January 1, 2018 led to additional costs of about \$2 million. In addition, there was a \$2.3 million increase from fiscal year 2017 in incentives, bonuses and other one-time payments. An increase in the fringe benefit rate paid to the University for faculty physicians, from 16.4% to 18.3% caused additional expense of approximately \$1.9 million.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Table 6 - Condensed Statements of Cash Flows

	2018	2017	Increase (Decrease)	Percent Change
NET CASH PROVIDED BY				
OPERATING ACTIVITIES:	\$ 135,472,354	\$ 123,603,811	\$ 11,868,543	9.60%
CASH USED IN NONCAPITAL				
FINANCING ACTIVITIES	(140,908,381)	(118,126,106)	(22,782,275)	19.29%
NET CASH USED IN CAPITAL AND				
RELATED FINANCING ACTIVITIES	(7,542,957)	(3,986,558)	(3,556,399)	89.21%
NET CASH PROVIDED BY				
INVESTING ACTIVITIES	923,262	5,390,105	(4,466,843)	-82.87%
NET INCREASE (DECREASE) IN				
CASH AND CASH EQUIVALENTS	(12,055,722)	6,881,252	(18,936,974)	-275.20%
CASH AND CASH EQUIVALENTS,				
BEGINNING OF YEAR	50,799,326	43,918,074	6,881,252	15.67%
CASH AND CASH EQUIVALENTS,				
END OF YEAR	\$ 38,743,604	\$ 50,799,326	\$ (12,055,722)	-23.73%

Cash Provided by Operating Activities: Net cash provided by operating activities for the year was \$135,472,354, reflecting an increase of \$11,868,543 or approximately 9.6% from last year. Total cash receipts from operating activities rose from \$249,874,836 in fiscal year 2017 to \$269,240,434 in fiscal year 2018. As with prior years, the largest source of cash, at \$232,846,306 was from clinical services provided by UF faculty and mid-level providers to patients. The funds for these services which come from Medicare, Medicaid, other insurers and institutions as well as patients themselves, increased by \$29,535,057 or 14.5%. The next highest source of cash was from other revenue which, at \$29,481,407, is \$10,735,186 below last year's receipts in this category. This decrease in cash stems from the reduction in overall Hospital funding, as well as the delayed receipt of over \$7 million from the Hospital at year end.

The total cash expended for operating activities rose by \$7,497,055 to \$133,768,080. By far, the largest use of cash for operating activities was in salaries and benefits of staff which amounted to \$94,452,441. This represented an increase of \$3,470,687, or 3.8% from last year. Payments for operating expenses grew by \$2,853,784 to \$32,210,277, reflecting higher spending for items such as supplies, fees, etc. There was an increase to the cash outflows for the Dean's Fund and a small decrease to the program support accounts.

Cash Used in Noncapital Financing Activities: The payments to the University to cover the salaries and benefits of faculty and other UF staff rose from \$118,126,106 to \$140,908,381, representing an increase of \$22,782,275 or 19.3%. A number of factors contributed to this, including 31.8 more faculty physician FTEs in fiscal year 2018, faculty raises of 3%, an increase in the fringe benefit rate paid to the University and an increase in incentives, bonuses and other one-time payments. Please see the explanation in the Transfers section for more details.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Cash Used in Capital and Related Financing Activities: The use of cash for capital and related financing activities was largely for purchases of capital assets during the year and for principal payments on the bonds. The purchase of capital assets for the year of \$6,657,414 was up approximately 110% from the \$3,164,049 that was spent in the prior year. In the current year, \$3,650,400 was paid for 7 acres of land in Nassau County, along with \$366,000 for architectural, engineering and construction fees related to the medical office building that will be built on the site. See the Capital Assets section in the discussion on assets for more detail regarding capital purchases in fiscal year 2018. The bond payment which is on an accelerating schedule increased to \$810,000 this year from the \$775,000 paid last year. Interest expense paid on the bonds was \$70,386 in fiscal year 2018, an increase of \$31,635 from prior year.

Cash Provided by Investing Activities: In the past, the main source of cash from investing activities was from interest earnings. However, in fiscal year 2015 the sale of FCA to Molina occurred, and additional net proceeds of \$654,545 were received in fiscal year 2018. See Note M. Interest received was higher than prior year, at \$268,717 compared to \$220,255 received in fiscal year 2017. Details related to interest earnings were previously explained in the Non-Operating Items section.

ECONOMIC OUTLOOK

The Northeast Florida area has continued to experience increased economic activity with continued expansion in a number of industries including retail, construction and healthcare. The unemployment rate for the Jacksonville metropolitan area is at its lowest in over a decade at about 3.2% while the state of Florida unemployment rate is just below 4%. There continues to be upward pressure on short term interest rates while longer term rates are remaining relatively stable. The Northeast Florida and Southeast Georgia population is expected to exceed 1.5 million people in the coming year with the primary service area for UFJP as Duval, Nassau and Baker counties. These counties are projected to add an average 14,000 residents per year between 2018 and 2020. Housing starts and home sales have continued to increase as a consequence of the low unemployment rate, low interest rate environment and higher consumer confidence. A number of new companies began operations in the Jacksonville area including two large distribution centers for an online retailer, expansion of local operations of a global bank and numerous additional retail outlets.

UF Health Jacksonville opened its new hospital bed tower with 92 beds in May 2017, adjacent to the North Medical Office Building opened in March 2015. Occupancy of the new bed tower has continued to increase with patients requiring more than a 24 hour stay and the opening of a labor and delivery unit. Consideration is being given to adding another bed tower at the North Campus in the near future. The focus of UFJP's growth in the past year has been at the North Campus and the North Medical Office Building is fully occupied with UFJP adding services during the past year including Urology, Podiatry and Community Health and Family Medicine.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

For the coming year, a new primary care clinic is planned for the Nocatee / southern Duval area. This will be the farthest southern clinic location for UFJP in a rapidly growing area. In addition, UFJP plans to continue to expand its services to the north in conjunction with a large residential development in Nassau County, Florida. UFJP purchased over seven acres of land in December 2017 and is planning to construct a 43,000 square foot ambulatory medical services building to primarily serve the residents of the new master planned project. The ambulatory medical services building is planned to contain urgent care, imaging, laboratory, primary care, pediatrics, women's health, mental health and dentistry services.

The local healthcare market continues to be very competitive throughout Northeast Florida with all the major health systems expanding facilities and services. UFJP and UF Health Jacksonville are strategically situated to address the competition with the strength of its primary care satellite clinic locations, as well as, the operation of the Emerson Medical Park on the southside, the new UF Health campus on the northside and the opening of the new ambulatory medical services building in Nassau county as previously mentioned. Also, beginning January 2018, the city of Jacksonville began offering its employees a new plan that is comprised of a narrow network of University of Florida faculty in Jacksonville with premium share structured to be attractive to its employees.

The overall healthcare industry continues to change with different reimbursement models from governmental and commercial payers based on performance. Changes started several years ago with such programs as PQRS, Meaningful Use and Accountable Care Organizations (ACO) as part of the Affordable Care Act. CMS announced its plan for MACRA, the Medicare Access and CHIP Reauthorization Act. The final rule was published in November 2016 with the first year of measurement in calendar year 2017 and its resulting changes in reimbursement effective calendar year 2019. UFJP had already started participating in several ACO's with shared savings, in PQRS and in Meaningful Use. The latter two programs with CMS will be merged along with the Value Based Modifier program into MACRA. However, Medicaid will continue Meaningful Use into 2021. These "Pay for Performance Programs" have been significant for UFJP with over \$18 million received from PQRS and other insurers' programs and over \$11 million in Meaningful use since inception. UFJP continues to address these changes through a work group of physician and department leaders formed in 2016 with the primary goal to inform and monitor all UFJP providers.

Ongoing financial and personnel investments are required for healthcare information systems as they continue to become more robust and complex. Epic software applications have been in place at UFJP since November 2012 beginning with scheduling, registration, billing, collections and lastly an electronic medical records system with the ability to auto charge capture. In the fall of 2016, Healthy Planet, Epic's population health management system was implemented in the UFJP primary care satellite clinics. Quality metrics were established in five of the main chronic diseases using national standards for benchmarking. Dashboards for executives, primary care physicians and care coordinators were developed and made available. This application monitors care gaps, sends mass communications to patients, and provides timely reports at different levels

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

including detail by patient and across populations by age, location, insurers, etc. Another application is MyChart that is a patient portal providing patients access to their medical records. Patients can request appointments, direct schedule with their Primary Care Providers, e-check for upcoming appoints, fill out questionnaires, reconcile their allergy and medications and send messages to their providers requesting advice/questions. The MyChart portal allows patients to receive paperless billing and pay their bill through the portal since August 2017. More than 80,000 UFJP and UF Health Jacksonville patients have registered with the MyChart application. Lastly, UFJP implemented the Eligibility and Enrollment module, Tapestry, in April 2017. This module uses eligibility and enrollment files from our contract payors to update patient registrations. This reduces the overall registration error rate and speeds up the registration process for patients.

The UPL or Physicians Supplement Payment program under Medicaid continued this year with the academic centers paid a preset capitation based on the entire membership in their region. After the conversion statewide to Medicaid Reform in May 2014, roughly 85% of Medicaid services is under managed care and is expected to increase even further. This year the practice plan also received additional funds related to a new Fee for Service Enhancement program with UPL and a new funding source through the state's LIP distribution. The overall UPL and LIP payment methodology for fiscal year 2019 is uncertain but is anticipated to be similar to 2017 and 2018.

During the 2017 fiscal year, a new Dean of the College of Medicine-Jacksonville was appointed and during fiscal year 2018, the same individual was named the Chief Executive Officer of UF Health Jacksonville. A new Senior Associate Dean for Clinical Affairs started in October 2017. Also during fiscal year 2018, five new department chairs were either named or started to replace one retired chair and four interim chair positions.

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.

Audited Financial Statements

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Net Position

	June 30,	
	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 38,743,604	\$ 50,799,326
Patient accounts receivable, net of estimated uncollectibles and contractual adjustments of \$41,207,654 in 2018 and \$40,154,192 in 2017	11,952,458	13,217,157
Other receivables	13,626,844	7,942,370
Prepaid expenses and other current assets	1,804,819	1,614,026
Due from Shands Jacksonville Medical Center, Inc.	7,783,043	280,357
Due from Faculty Clinic, Inc.	36,101	35,800
TOTAL CURRENT ASSETS	73,946,869	73,889,036
CAPITAL ASSETS:		
Land	3,748,493	98,093
Building	2,354,490	2,354,490
Equipment	21,227,132	29,954,015
Computer software	15,403,672	14,951,354
Leasehold improvements	15,567,220	15,005,415
Construction in progress	433,249	44,517
TOTAL CAPITAL ASSETS	58,734,256	62,407,884
Accumulated depreciation and amortization	(38,985,306)	(44,577,124)
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	19,748,950	17,830,760
TOTAL ASSETS	\$ 93,695,819	\$ 91,719,796

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Net Position - Continued

	<i>June 30,</i>	
	<i>2018</i>	<i>2017</i>
LIABILITIES		
CURRENT LIABILITIES:		
Due to University of Florida	\$ 1,041,951	\$ 478,109
Due to Shands Jacksonville Medical Center, Inc.	716,116	650,959
Due to Shands at the University of Florida, Inc.	253,770	233,674
Accounts payable	7,181,919	8,551,740
Accrued compensation and benefits	9,928,486	8,352,701
Other accrued liabilities	-	2,400,000
Current portion of long-term debt and capital lease obligations	854,506	819,663
TOTAL CURRENT LIABILITIES	19,976,748	21,486,846
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	2,805,000	3,655,000
TOTAL LIABILITIES	22,781,748	25,141,846
COMMITMENTS AND CONTINGENCIES - Notes H and J		
NET POSITION:		
Net investment in capital assets	16,089,444	13,356,097
Unrestricted	54,824,627	53,221,853
TOTAL NET POSITION	70,914,071	66,577,950
TOTAL LIABILITIES AND NET POSITION	\$ 93,695,819	\$ 91,719,796

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30,</i>	
	<i>2018</i>	<i>2017</i>
OPERATING REVENUE:		
Patient service revenue, net of contractual allowances and discounts	\$ 257,716,453	\$ 218,446,513
Provision for bad debts	(23,734,843)	(17,604,302)
Net patient service revenue	233,981,610	200,842,211
Other revenue	42,801,657	44,305,018
Charity care settlement	4,299,577	4,345,323
Contributions from Shands Jacksonville Medical Center, Inc.	1,936,402	2,003,195
Management and other fees	44,855	343,969
TOTAL OPERATING REVENUE	283,064,101	251,839,716
OPERATING EXPENSES:		
Salaries and benefits	96,028,226	91,168,239
Other operating expenses	35,372,589	34,662,025
Contributions to affiliates, net	150,000	150,000
Dean's Fund	6,227,810	5,014,951
Program support accounts	877,552	917,827
TOTAL OPERATING EXPENSES	138,656,177	131,913,042
OPERATING INCOME	144,407,924	119,926,674
NONOPERATING REVENUE (EXPENSES):		
Interest expense	(70,386)	(38,751)
Interest income	268,717	220,255
Loss on disposal of property and equipment	(16,298)	(79,235)
Gain on sale of University of Florida Jacksonville Healthcare, Inc. membership in joint venture	654,545	5,169,850
NET NONOPERATING REVENUE	836,578	5,272,119
INCREASE IN NET POSITION BEFORE TRANSFERS	145,244,502	125,198,793
TRANSFERS:		
Transfers to the University of Florida, College of Medicine	(140,908,381)	(118,126,106)
INCREASE IN NET POSITION	4,336,121	7,072,687
NET POSITION, BEGINNING OF YEAR	66,577,950	59,505,263
NET POSITION, END OF YEAR	\$ 70,914,071	\$ 66,577,950

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on behalf of patients	\$ 232,846,309	\$ 203,311,252
Receipts from other revenue	29,481,407	40,216,593
Receipts from charity care settlement	4,299,577	4,345,323
Receipts from affiliates	2,568,286	1,657,699
Other receipts	44,855	343,969
Payments to and on behalf of employees	(94,452,441)	(90,981,754)
Payments for operating expenses	(32,210,277)	(29,356,493)
Payments to Dean's Fund	(6,227,810)	(5,014,951)
Payments to program support accounts	(877,552)	(917,827)
NET CASH PROVIDED BY OPERATING ACTIVITIES	135,472,354	123,603,811
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments to the University of Florida, College of Medicine	(140,908,381)	(118,126,106)
CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(140,908,381)	(118,126,106)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(6,657,414)	(3,164,049)
Repayment of long-term debt	(810,000)	(775,000)
Principal payments on capital lease obligations	(5,157)	(8,758)
Interest paid	(70,386)	(38,751)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(7,542,957)	(3,986,558)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	268,717	220,255
Net proceeds from the sale of University of Florida Jacksonville Healthcare, Inc. membership in joint venture	654,545	5,169,850
NET CASH PROVIDED BY INVESTING ACTIVITIES	923,262	5,390,105
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,055,722)	6,881,252
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	50,799,326	43,918,074
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 38,743,604	\$ 50,799,326

See accompanying notes to financial statements.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Cash Flows - Continued

	<i>Year Ended June 30,</i>	
	<i>2018</i>	<i>2017</i>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 144,407,924	\$ 119,926,674
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,812,981	4,778,814
Provision for bad debts	23,734,843	17,604,302
Increase (decrease) in cash due to change in:		
Patient accounts receivable, net	(22,470,144)	(15,535,261)
Other receivables	(5,684,474)	(4,088,425)
Prepaid expenses and other current assets	(190,793)	(206,527)
Due to/from Shands Jacksonville Medical Center, Inc., net	(7,417,433)	316,678
Due to/from Faculty Clinic, Inc., net	(301)	(2,515)
Due to University of Florida	563,842	(509,659)
Accounts payable	(1,459,876)	733,245
Accrued compensation and benefits	1,575,785	186,485
Other current liabilities	(2,400,000)	400,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 135,472,354</u>	<u>\$ 123,603,811</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset additions in accounts payable	<u>\$ 90,055</u>	<u>\$ -</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

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, 2018, the Company supports the University's operation of 36 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 has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting.

Basis of Accounting: The Company's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenue, expenses, gains,

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenue, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange activities are generally recognized 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 or remaining maturity of less than 90 days when purchased, as cash equivalents for purposes of reporting cash flows.

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

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

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

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

Accrued Compensated Absences: The COM employees earn paid time off (PTO) days based on established policies. As of June 30, 2009, the University has assumed the liabilities for accrued compensated absences in conjunction with the establishment of a Fringe Benefit Pool. The Company transfers funds as required to support the University's Fringe Benefit Pool.

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, 2018 and 2017.

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

Income Taxes: The Company is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is exempt from state income taxes. Accordingly, no provision for income taxes has been included in the accompanying financial statements. At June 30, 2018, management does not believe the Company holds any uncertain tax positions. Tax returns for the years ended June 30, 2015 through 2018 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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

asset for substantially all leases with a maximum possible term exceeding 12 months. The lease liability is measured at the present value of payments made during the lease term. In later periods, the lessee should amortize the discount of the lease liability and report it as an outflow of resources (interest expense) for the period. The lease asset is measured as the sum of the amount of the initial measurement of the lease liability, lease payments made to the lessor at/before the beginning of the lease term, and any initial direct costs. A lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset and reported as an amortization expense. The Statement requires a disclosure of the general description of the leasing arrangements within the footnotes to the financial statements. For leases that have been significantly affected by the existence of related parties, the Statement indicates that accounting should be modified as necessary, and the nature and extent of these transactions should be disclosed. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019; early adoption is permitted. Management is currently evaluating the impact of the adoption of the Statement on the financial statements.

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

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

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

	<i>Year Ended June 30,</i>	
	<i>2018</i>	<i>2017</i>
Gross direct patient service charges	\$ 565,658,254	\$ 511,846,137
Indirect patient service revenue	18,976,411	17,954,003
	584,634,665	529,800,140

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

	<i>Year Ended June 30,</i>	
	<i>2018</i>	<i>2017</i>
Less: Estimated contractual adjustments	(326,918,212)	(311,353,627)
Estimated uncollectible accounts	(23,734,843)	(17,604,302)
	(350,653,055)	(328,957,929)
Net patient service revenue	\$ 233,981,610	\$ 200,842,211

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

	<i>Year Ended June 30,</i>	
	<i>2018</i>	<i>2017</i>
Third party payers	\$ 230,984,536	\$ 198,002,343
Patients responsibility, including self insured	26,731,917	20,444,170
	\$ 257,716,453	\$ 218,446,513

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

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

Medicare: All COM faculty physicians are participating in the Medicare program. Medicare pays 80% of the allowed charge with the patient being responsible for a 20% co-payment and an annual deductible. A contractual adjustment is recorded for the difference between the physician's charge and the Medicare allowable charge.

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

Medicaid Physician Upper Payment Limit: Physicians employed by or under contract with a Florida medical school are eligible to receive supplemental reimbursement under the Medicaid physicians upper payment limit (UPL) program. Net patient service revenue for 2018 and 2017 includes \$35,504,763 and \$29,999,891, respectively, related to the UPL program. Other receivables at June 30, 2018 and 2017 included \$9,428,811 and \$3,823,311, respectively, in expected future payments under the UPL program.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

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

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

Amounts earned under contractual arrangements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments which may result from such reviews. Activity with respect to these reviews has increased and is expected to continue to increase in the future. No additional reserves have been established with regard to possible increased reviews in the future as management is not able to estimate such amounts. In addition, participation in these programs subjects the Company to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the programs.

The Company's net patient accounts receivable consists primarily of amounts funded through third-party payers and private payments. Net patient accounts receivable as of June 30, 2018 and 2017 are summarized as follows:

	<i>2018</i>	<i>2017</i>
Patient accounts receivable based on established charges	\$ 53,160,112	\$ 53,371,349
Estimated reserve for contractual allowances and uncollectible accounts	(41,207,654)	(40,154,192)
Patient accounts receivable, net	<u>\$ 11,952,458</u>	<u>\$ 13,217,157</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

Net patient accounts receivable as of June 30, 2018 and 2017 consists of the following:

	<i>2018</i>	<i>2017</i>
Insurance carriers under commercial plans	\$ 2,914,574	\$ 3,801,513
Managed care plans	1,607,892	2,003,113
Medicare	1,659,733	2,107,583
Medicaid	1,500,966	2,095,077
Patients, including self insured	3,143,719	2,038,083
Other	1,125,574	1,171,788
	<u>\$ 11,952,458</u>	<u>\$ 13,217,157</u>

The activity relating to the estimated allowance for contractual adjustments and uncollectible accounts for the years ended June 30, 2018 and 2017, is summarized as follows:

	<i>2018</i>	<i>2017</i>
Beginning balance	\$ 40,154,192	\$ 40,021,094
Provision for bad debts	23,734,843	17,604,302
Charge-offs	(22,681,381)	(17,471,204)
Ending balance	<u>\$ 41,207,654</u>	<u>\$ 40,154,192</u>

The Company's estimated allowance for contractual adjustments and uncollectible accounts increased from June 30 2017 to June 30, 2018 due to the Company's establishment of additional reserves related to uncertainties associated with the ramp-up of various facilities.

NOTE D--BOARD DESIGNATED FUNDS

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

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, 2018 and 2017 was \$666,413 and \$659,271, respectively. These amounts are included in other operating expenses in the accompanying statements of revenue, expenses and changes in net position. The Company leases staff to the Faculty Clinic and is reimbursed the full cost of those staff.

The Company charges Faculty Clinic a management fee for accounting and administrative services rendered. The Company charged Faculty Clinic a management fee of \$45,000 for each of the years ended June 30, 2018 and 2017. These amounts are included in management and other fees in the accompanying statements of revenue, expenses and changes in net position.

The Company had a receivable from Faculty Clinic of \$36,101 and \$35,800 at June 30, 2018 and 2017, respectively.

The Company is a joint and individual guarantor with Shands Jacksonville on a letter of credit (LOC) securing \$8,500,000 in tax-exempt bonds issued on behalf of Faculty Clinic. The purpose of the bonds was to finance the construction of Faculty Clinic's medical facility. The LOC expires August 1, 2019 and management of the Company believes that the Company will not be required to make any payments related to its guarantee of this indebtedness. The LOC requires the Company as a joint and individual guarantor to meet certain financial covenants such as maintaining established fixed charge coverage and minimum unrestricted cash and investments to funded debt ratios. The Company was in compliance with these covenants at June 30, 2018 and 2017.

Shands Jacksonville: The University and the Company have entered into numerous annual agreements with Shands Jacksonville. At June 30, 2018 and 2017, the Company had a receivable from Shands Jacksonville of \$7,783,043 and \$280,357, respectively, and a payable to Shands

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

Jacksonville of \$716,116 and \$650,959 at June 30, 2018 and 2017, 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 \$517,280 in 2018 and \$443,523 in 2017. Shands Jacksonville funds various support services for the University including the medical directorships, trauma program, administrative support and new program development in urology, orthopedics and other areas. Total contributions from Shands Jacksonville for the years ending June 30, 2018 and 2017 were \$36,100,321 and \$39,682,413, respectively. Such amounts are included in other revenue 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, 2018 and 2017, the Company received \$1,936,402 and \$2,003,195, respectively, from Shands Jacksonville related to the operation of these clinics.

The Company pays for space leased by the University from Shands Jacksonville under various operating leases (see Note H). Lease expense under these leases was \$1,489,308 and \$1,535,445 in 2018 and 2017, respectively.

Shands at the University of Florida, Inc.: The Company and Shands at the University of Florida, Inc. (Shands at UF) have implemented a revenue cycle and electronic medical records system. Shands at UF incurs costs associated with the maintenance of this system that the Company and Shands at UF have determined should be allocated to the Company. As of June 30, 2018 and 2017, the Company owed Shands at UF \$253,770 and \$233,674, 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 2018 and 2017 were \$649,453 and \$807,952, respectively, and are included in other operating expenses in the accompanying statements of revenue, expenses and changes in net position.

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

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, 2018 and 2017 were \$1,190,508 and \$1,118,141, respectively. Premiums paid to HEIC for the years ended June 30, 2018 and 2017 were \$229,506 and \$219,681, respectively. No amounts were due to the Self-Insurance Program or the HEIC at June 30, 2018 and 2017.

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, 2018 and 2017 is as follows:

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Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

	<i>Balance at June 30, 2017</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2018</i>
Capital assets:					
Land	\$ 98,093	\$ 3,650,400	\$ -	\$ -	\$ 3,748,493
Building	2,354,490	-	-	-	2,354,490
Equipment	29,954,015	1,618,576	(10,410,796)	65,337	21,227,132
Computer software	14,951,354	257,563	(5,558)	200,313	15,403,672
Leasehold improvements	15,005,415	340,588	(4,743)	225,960	15,567,220
Construction in progress	44,517	880,342	-	(491,610)	433,249
Total capital assets	62,407,884	6,747,469	(10,421,097)	-	58,734,256
Accumulated depreciation:					
Building	1,554,488	84,250	-	-	1,638,738
Equipment	24,613,635	1,936,581	(10,398,734)	-	16,151,482
Computer software	8,392,550	1,834,811	(5,558)	-	10,221,803
Leasehold improvements	10,016,451	957,339	(507)	-	10,973,283
Total accumulated depreciation	44,577,124	4,812,981	(10,404,799)	-	38,985,306
Capital assets, net	\$ 17,830,760	\$ 1,934,488	\$ (16,298)	\$ -	\$ 19,748,950
	<i>Balance at June 30, 2016</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2017</i>
Capital assets:					
Land	\$ 98,093	\$ -	\$ -	\$ -	\$ 98,093
Building	2,354,490	-	-	-	2,354,490
Equipment	28,544,684	1,728,454	(419,228)	100,105	29,954,015
Computer software	14,877,851	73,503	-	-	14,951,354
Leasehold improvements	13,303,096	1,194,307	(279,606)	787,618	15,005,415
Construction in progress	764,455	167,785	-	(887,723)	44,517
Total capital assets	59,942,669	3,164,049	(698,834)	-	62,407,884
Accumulated depreciation:					
Building	1,467,446	87,042	-	-	1,554,488
Equipment	23,091,311	1,934,700	(412,376)	-	24,613,635
Computer software	6,550,701	1,841,849	-	-	8,392,550
Leasehold improvements	9,308,451	915,223	(207,223)	-	10,016,451
Total accumulated depreciation	40,417,909	4,778,814	(619,599)	-	44,577,124
Capital assets, net	\$ 19,524,760	\$ (1,614,765)	\$ (79,235)	\$ -	\$ 17,830,760

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

No significant amount of interest relating to construction projects was capitalized in 2018 and 2017. Estimated costs to complete construction in progress at June 30, 2018 were approximately \$25,881,000 and relate to facility construction, renovations and software related projects.

In December 2017, the Company purchased land in Nassau County north of Jacksonville for \$3,650,400. For seven years after closing, the use of the property is restricted to various medical and health care uses and ancillary general office use. The Company plans to construct an ambulatory care hub on the site at an estimated cost of \$26,000,000. This amount is factored in to the estimated cost to complete construction in progress at June 30, 2018.

NOTE G--LONG-TERM DEBT

Activity in long-term debt for the years ended June 30, 2018 and 2017 is as follows:

	<i>Balance at June 30, 2017</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2018</i>	<i>Amounts Due Within One Year</i>
Health Facilities Revenue Bonds, Series 2002	\$ 4,465,000	\$ -	\$ (810,000)	\$ 3,655,000	\$ 850,000
	<i>Balance at June 30, 2016</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2017</i>	<i>Amounts Due Within One Year</i>
Health Facilities Revenue Bonds, Series 2002	\$ 5,240,000	\$ -	\$ (775,000)	\$ 4,465,000	\$ 810,000

During 2002, the Jacksonville Health Facilities Authority (the Authority) issued \$12,930,000 of variable rate Health Facilities Revenue Bonds, Series 2002 (the Series 2002 Bonds). Proceeds of the issue were used to finance or refinance all or a portion of the costs of the acquisition, construction, renovation, and equipping of additions and extensions to selected outpatient University clinics located throughout the Jacksonville area and to refinance various other existing debt which was redeemed.

Principal and interest payments on the Series 2002 Bonds are supported by an irrevocable letter of credit provided by a bank. The letter of credit expires December 31, 2018 (subject to earlier termination or extension in accordance with the letter-of-credit agreement). The annualized fee related to this letter of credit is .82% of the outstanding principal of the bonds. The Series 2002 Bonds and related letter of credit are collateralized by the Company's gross revenue as defined in the agreements to include all operating and non-operating revenue.

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Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

The redemption of the Series 2002 Bonds is provided for by annual principal payments which began in June 2003 and end in June 2022. The Bonds are also subject to various optional and mandatory redemption requirements as provided in the bond agreements. The Series 2002 Bonds bear interest at a weekly variable rate determined by a remarketing agent under terms of a remarketing agreement. Such rate will be a minimum interest rate to enable the agent to sell the bonds at their principal amount. The Bonds may also be converted to a fixed rate or other variable rate as provided in the bond agreements. The variable rate is based on the market rate for similar municipal securities and was 1.61% and 0.95% as of June 30, 2018 and 2017, respectively.

There are numerous restrictive covenants contained in the agreements related to the Series 2002 Bonds. Among other things, the Company is restricted as to additional borrowings or liens on property, merger, acquisition, sale or purchase of assets, and must maintain certain financial ratios. The Company was in compliance with these restrictive financial covenants as of June 30, 2018 and 2017.

The estimated future debt service requirements of the Series 2002 Bonds, based on the interest rate in effect at June 30, 2018, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2019	\$ 850,000	\$ 58,846	\$ 908,846
2020	890,000	45,161	935,161
2021	935,000	30,832	965,832
2022	980,000	15,778	995,778
	<u>\$ 3,655,000</u>	<u>\$ 150,617</u>	<u>\$ 3,805,617</u>

The Company maintains a revolving line of credit with a bank in the amount of \$10,000,000 that expires on February 27, 2019. Prior to February 28, 2018, the amount of the line of credit was \$5,000,000. There were no amounts outstanding on this line of credit as of June 30, 2018 and 2017.

NOTE H--LEASES

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

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

	<i>Balance at June 30, 2016</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2017</i>	<i>Amounts Due Within One Year</i>
Capital lease obligations	\$ 18,421	\$ -	\$ (8,758)	\$ 9,663	\$ 9,663

The Company leases equipment under a capital lease agreement. Future minimum lease payments under the capital lease agreement are as follows:

<i>Year Ending June 30,</i>	
2019	\$ 4,578
Total minimum lease payments	4,578
Less amount representing interest	(72)
Present value of net future minimum lease payments	4,506
Less current portion	(4,506)
Present value of future minimum lease payments - long-term	\$ -

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, 2018 under operating leases that have original or remaining non-cancelable lease terms in excess of one year:

<i>Year Ending June 30,</i>	
2019	\$ 8,421,576
2020	6,645,137
2021	5,664,745
2022	4,558,472
2023	3,657,515
2024-2028	8,595,237
2029-2033	3,745,320
2034-2038	330,000
2039-2043	330,000
2044-2047	231,000
Total future minimum lease payments	\$ 42,179,002

Lease expense was \$9,645,544 and \$9,290,362 for the years ended June 30, 2018 and 2017, respectively.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

NOTE I--EMPLOYEE BENEFIT PLANS

University physicians are participants in a defined contribution plan through the COM. Contributions to the Plan are included in Transfers to the University of Florida, College of Medicine in the statements of revenue, expenses and changes in net position for the years ended June 30, 2018 and 2017 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, 2018 and 2017, 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, 2018. Full vesting of the Company contributions occurs after five years of service. Retirement plan expense for the Company for this retirement plan was \$1,677,517 and \$1,738,958 for the years ended June 30, 2018 and 2017, respectively.

NOTE J--COMMITMENTS AND CONTINGENCIES

Professional Liability: The Company is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and accident claims; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

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

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

Compliance Matter: In 2017, the Company identified several related cases of non-compliance that were under internal review. Repayment to governmental entities was deemed probable and a

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

reasonable estimate of this liability was recorded as other accrued liabilities in the statement of net position as of June 30, 2017. During 2018, a settlement of approximately \$1,561,000 was reached and paid in resolution of this matter.

Legal Matters: The Company is party to various legal proceedings arising from normal business activities. In the opinion of management, the ultimate outcome of those proceedings will not have a material adverse impact on the financial position or results of operations of the Company. However, the ultimate resolution of these proceedings may result in losses different from the amounts anticipated.

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

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

In March 2010, 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 by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE K--CHARITY CARE

The University has a policy of providing care to charity patients designated by the City of Jacksonville. Effective July 1, 1997, the Company began recording actual services rendered by the University to charity patients. Charges foregone related to these services for 2018 and 2017 are likely to be understated due to the lengthy lag time in the patient qualification process. These

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Notes to Financial Statements - Continued

Years Ended June 30, 2018 and 2017

services, which are excluded from net patient service revenue, were approximately \$40,516,000 in 2018 and \$42,411,000 in 2017 at the Company's established rates. Charges foregone related to other charity patients were approximately \$21,397,000 in 2018 and \$20,382,000 in 2017. The estimated direct and indirect cost of providing these services totaled approximately \$27,687,000 and \$27,439,000 in 2018 and 2017, respectively.

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

NOTE L--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE M--SALE OF MEMBERSHIP IN JOINT VENTURE

During 2015, Shands Jacksonville and University of Florida Jacksonville Healthcare, Inc. (UFJH), an entity which merged with the Company effective July 1, 2015, entered into an Asset Purchase Agreement to sell First Coast Advantage East, LLC (FCAE) to a third party. UFJH repaid the Company the deposit for membership in the joint venture based on proceeds from the sale. An initial gain on the sale was recognized prior to 2016. Pursuant to the Asset Purchase Agreement, the initial purchase price was subject to certain adjustments. A gain of \$654,545 and \$5,169,850 was recognized by the Company during the years ended June 30, 2018 and 2017, respectively, due to additional disbursements being received by the Company associated with the sale.

NOTE N--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2018 financial statements.

Other Financial Information

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

	<i>Year Ended June 30,</i>	
	<i>2018</i>	<i>2017</i>
REVENUE	\$ -	\$ -
EXPENDITURES:		
Salaries and benefits	141,311,697	122,253,490
Other operating expenses	1,817,177	1,529,904
Total expenditures	143,128,874	123,783,394
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	(143,128,874)	(123,783,394)
TRANSFERS:		
From University of Florida Jacksonville Physicians, Inc.	140,908,381	118,126,106
DEFICIT OF REVENUE AND TRANSFERS OVER EXPENDITURES	(2,220,493)	(5,657,288)
NET DEFICIENCY, BEGINNING OF YEAR	(10,151,457)	(4,494,169)
NET DEFICIENCY, END OF YEAR	\$ (12,371,950)	\$ (10,151,457)

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, 2018, 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 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PYA, P.C.

Tampa, Florida
September 20, 2018