



Financial Statements (and Other Information)

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

Year Ended June 30, 2022

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the 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 year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the business-type activities of University of Florida Jacksonville Physicians, Inc. as of June 30, 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 4 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 Statement 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 audit 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 22, 2022 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PYA, P.C.

Tampa, Florida
September 22, 2022

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, 2021. This section, along with the financial statements and related footnotes, has been prepared by and is the responsibility of management. This discussion should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes.

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

OVERVIEW

Financial results for fiscal year 2022 continued to be impacted by the coronavirus pandemic at the beginning of year with lower clinical visits and cancellations of elective surgeries, but patient volumes rebounded by the end of the fiscal year to pre-pandemic levels. Vaccination booster shots were recommended during the year and helped decrease the severity of the COVID-19 virus impact on healthcare systems even as new variant strains of the virus continued to appear. However, position vacancies, wage pressures and supply chain delays continued to be challenges in operations for UFJP. Also in FY 2022, a new lease accounting standard was implemented and the UFJP's membership interests in the North Medical Office Building (NMOB) were sold for a gain.

The overall Jacksonville physicians' practice plan results for FY 2022 was a positive \$4,677,011 and includes the \$1,245,597 increase in net position of UFJP and the \$3,431,414 increase of the Miscellaneous Gifts and Grants Fund (MG&G) outlined in the supplemental schedule. This represents an \$8.1 million positive variance from budget, as the fiscal year 2022 budget was a deficit of \$(3,387,000) for all funds (Operating, Dean's, PSA and MG&G) of the practice plan. While there were a number of factors behind the positive budget variance that will be outlined in the following sections, the most significant factors were the receipt of funding through the Low Income Pool (LIP) program in the amount of \$20.2 million, which was \$16.7 million more than budget and increased Charity care funding from Shands Jacksonville Medical Center, Inc. (Shands Jacksonville) (Hospital) of \$3.1 million. UFJP also received quality/shared savings funding of \$1.6 million more than budget and an unbudgeted non-operating gain on the sale of the NMOB membership interest of \$7.2 million. However, these factors were offset by the negative budget variances of (1) Upper Payment Limit (UPL) funding of \$40.0 million which was \$4.0 million less than budget, (2) reduced Hospital funding of \$3.1 million, (3) additional accrued physician incentives and call/extra duty pay of \$6.8 million, (4) additional LIP allowance of \$7.0 million, (5) net operational budget variances of \$1.9 million and (6) an unbudgeted lease expense related to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, of \$2.9 million. The Program Support Accounts and

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Dean's Fund had a \$1,568,000 unfavorable budget variance for the year as a result of funding operations of the new Brain Wellness Center and higher than anticipated research expenses. In addition to the gain on the sale of the NMOB, an unbudgeted Non-operating unrealized gain on the interest rate swap for the Series 2019 Notes was recorded in FY 2022.

Total operating revenue for FY 2022 increased by \$2,986,571 or 0.9% from prior year. The largest portion of the increase was growth in net patient service revenue including the increase in Charity care settlement. Gross clinical revenue excluding charity increased from the prior year by 4.0% or \$24.2 million. Improved payor mix with an increase in commercial volume to 28.3% also supported the increase in operating revenue. Pay for performance, value based and shared savings programs' receipts were \$5,892,000 for FY 2022, an increase of \$393,000 from the previous year. Charity gross clinical revenue decreased 17.4% in FY 2022 and decreased 22% in FY 2021 from respective prior years. However, net charity care funding from the Hospital increased as a result of UFJP receiving its allocated share of increased funding from the City of Jacksonville to the Hospital.

Total operating expenses including transfers to cover physician salaries and benefits increased from last year by \$16,526,531 or 5.1%. Factors related to the expense increase included increased number of physicians and staff, salary increases, increase in call/extra duty pay and an increase in lease expense related to the implementation of GASB Statement No. 87.

Non-operating revenue for FY 2022 includes an unrealized gain of \$3,276,814 for the market value adjustment related to the interest rate swap agreement on the Series 2019 Notes and a realized gain of \$7,179,511 on the sale of the NMOB membership interest. Non-operating expense for FY 2022 includes interest expense on the Series 2019 Notes primarily for the construction of the Wildlight medical services center and investment (loss) on cash and investments with an unfavorable rate environment.

In relation to the statements of net position, total assets exceeded the prior year by \$45,219,909 primarily as a result of including \$50,652,034 in right-of-use assets related to leases under GASB Statement No. 87 reporting. Other large changes were in cash and cash equivalents and other receivables. Cash and cash equivalents increased from the prior year by \$4,863,744 as a result of receipt of UPL funding. Other receivables decreased by \$20,036,689 as a result of the timing of providing an Inter-Governmental Transfer (IGT) for UPL. Included in the cash and cash equivalents is the UFJP balance of \$29.0 million in the State of Florida Special Purpose Investment Account (SPIA). Patient accounts receivable, net increased from prior year by \$1,880,752. Total capital assets, net increased as a result of including the right-of-use assets for leases and new capital acquisitions.

Current liabilities increased by \$3,383,279 and the categories with the largest change were an increase in accounts payable of \$8,795,978, a new current portion of lease liability of \$7,739,568, a decrease in the line of credit of \$10,000,000 and a decrease in third party advance payments of \$3,354,340. Accounts payable increased as a result of increased trade payables and an increase in the LIP allowance. The \$10,000,000 outstanding balance on the line of credit was

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

paid down upon receipt of UPL funding in July 2021. Also, third-party advance payments decreased as a result of the repayment of prior year's Medicare advances. Long term debt decreased due to an annual principle payment on the 2019 tax-exempt, bank-held note used to refinance the outstanding balance of the Series 2002 Bonds and fund the construction of the Wildlight medical services building. The interest rate for the Series 2019 Notes was a fixed rate swap effective for 15 years beginning February 2020. The estimated fair value of the interest rate swap is reflected as a \$97,284 long-term asset. The total outstanding principal balance of the Series 2019 Notes on June 30, 2022 was \$26,345,000.

The Company implemented GASB Statement No. 87 for fiscal year 2022. GASB Statement No. 87 requires substantially all leases with a maximum possible term exceeding 12 months to be recognized as assets and liabilities on the statement of net position. For leases on which the Company is the lessee, a lease liability and a right to use asset are recorded. For leases on which the Company is a lessor, a lease receivable and related deferred inflow of resources are recorded on the statement of net position. Accounts affected by the implementation will be noted throughout the discussion. See Notes B, F, H and I to the financial statements for more detailed explanation and information.

FINANCIAL ANALYSIS

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

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

Table 1 - Condensed Statement of Net Position - Assets

	<i>June 30, 2022</i>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 42,665,930
Patient accounts receivable, net	15,075,672
Current portion of lease receivables	125,532
Other receivables	43,200,326
Prepaid expenses and other current assets	2,173,791
Due from related parties	5,762,551
	<hr/>
TOTAL CURRENT ASSETS	109,003,802

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

	<i>June 30, 2022</i>
NON-CURRENT ASSETS	
Estimated fair value of interest rate swap	97,284
Lease receivables, less current portion	637,951
TOTAL NON-CURRENT ASSETS	735,235
CAPITAL ASSETS, NET	93,232,082
TOTAL ASSETS	\$ 202,971,119

Current assets declined this year by about \$8.1 million or 7.0% to a total of \$109,003,802. Cash and cash equivalents at \$42,665,930, is the second largest asset in the current asset category. The balance is composed of \$13,031,528 in operating cash accounts and \$29,634,402 in SPIA and other short term investment accounts. Patient accounts receivable, at a net balance of \$15,075,672 represents amounts expected to be collected from patients as well as insurers or government programs. Other receivables ended the year with a balance of \$43,200,326. Nearly 84% of this balance, or \$36.1 million is related to the UPL funding. As of June 30, 2022 the Company had not received any of the funding that flows through the managed care organizations. The Company had also not made the Inter-Governmental Transfer (IGT) transfer related to the UPL funding at year end, which is why other receivables is down significantly from June 30, 2021. Receivables for contract revenue stands at \$6,724,773 at year end, primarily from contracts with Wolfson Children's Hospital. Due from related parties is up this year, at \$5,762,551. Nearly all of this balance is from Shands Jacksonville, as the hospital was one month behind in payments at the end of the fiscal year. There is also a small amount as a receivable from Faculty Clinic, Inc. Prepaid expenses at \$2.2 million is consistent with prior years. New accounts in both the current and non-current categories is lease receivables, and total \$763,483. With GASB Statement No. 87, for any leases which the Company is the lessor, the present value of lease payments expected to be received during the lease terms are recorded as assets, with the amounts to be received in the next twelve months designated as a current asset. The Company has several property leases or sub-leases.

Table 2 - Capital Assets

	<i>June 30, 2022</i>
CAPITAL ASSETS, NET:	
Land and improvements	\$ 3,748,493
Building	19,700,205
Equipment	9,080,577
Computer software	428,432
Leasehold improvements	4,933,712
Construction in progress	4,688,629
Right-of-use assets	50,652,034
CAPITAL ASSETS, NET	\$ 93,232,082

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

The Company's investment in capital assets, net of accumulated depreciation and amortization, is the Company's largest asset category. The 2022 fiscal year-end balance of \$93,232,082 is more than double the 2021 fiscal year-end balance. Approximately \$7.7 million in capital assets were acquired during fiscal year 2022, offset by annual depreciation and amortization of \$5,663,000 and net disposals of \$121,000. The biggest change for fiscal year 2022 is the recording of \$50,652,034 of right-of-use assets and is related to the implementation of GASB 87. It is initially measured at an amount equal to the initial measurement of the related lease liability. These are primarily property type leases, but includes equipment leases for copiers. This amount is amortized on a straight line basis over the life of the various leases. The Building category, composed primarily of the Wildlight medical services building, remains the largest component of the traditional capital assets, with a net balance of \$19,700,205 at year's end. A number of additions were made in the other categories. Approximately \$899,000 was added to leasehold improvements. This included \$291,000 for remodeling the Baymeadows Imaging Center to allow for a new CT scanner, \$262,000 for the Normandy Family Medicine relocation, \$53,000 for the buildout of space at the New Berlin Family Medicine center and \$72,000 for the expansion and remodeling of the Office of Student Affairs. Nearly \$2,357,000 was added in equipment. The department of Radiology purchased a CT scan machine and related components for the Baymeadows Imaging Center for about \$380,000 and spent \$48,000 on additional equipment for the imaging center at Wildlight. Ophthalmology spent \$174,000 on several new advanced pieces of equipment for eye exams while the department of Psychiatry purchased a Transcranial Magnetic Stimulation machine for \$107,000. The department of Pathology spent \$450,000 for a digital scanner and related equipment. Other departments bought smaller pieces of equipment and there were numerous miscellaneous items purchased throughout the organization such as spot monitors, exam tables, furniture, etc.

The balance in the construction in progress category at June 30, 2022 is \$4,688,629. Of this total, \$4,433,000 is for the UF Health East project. It includes expenditures for the purchase of the second floor of the building, build out of the second floor and equipment for both the second and first floors. The second floor medical office is scheduled to open in December 2022.

Major information system related expenditures added this year include approximately \$280,000 for new phones for use throughout the system and \$100,000 for new Cisco switches. A new software module was purchased for \$20,400 to assist with the implementation of GASB Statement No. 87 and the EPSI budget software was upgraded at a cost of \$23,525.

The cost of information system software and technology to provide professional services billing, appointment scheduling, point of service functions and the electronic health records (EHR) resides on the Company's books. This is an enterprise system that provides an EHR, revenue cycle and ancillary system software for hospitals and physicians that interface seamlessly. The amount being recorded on the Company's books is an allocation of costs incurred based on appropriate metrics with the assumption that software and support infrastructure will benefit all entities on both campuses (Jacksonville and Gainesville). The major additions this year were \$266,000 for the implementation of the Single Billing Office (SBO) and \$76,000 for an Epic

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

hardware refresh. A detail of additions, retirements and accumulated depreciation is provided in Note F.

Table 3 - Patient Accounts Receivable

	<i>Year Ended June 30, 2022</i>
Beginning accounts receivable	\$ 62,602,646
Charges	692,063,890
Payments	(260,544,939)
Write-off for contractual adjustments and bad debts	(431,735,384)
Patient accounts receivable	62,386,213
Reserve for contractual adjustments and bad debts	(47,310,541)
Total patient accounts receivable, net	<u>\$ 15,075,672</u>

Patient accounts receivable, while up from last year, continued to be less than 10% of the Total Assets. Net of estimated uncollectibles and contractual adjustments, the balance in this category increased to \$15,075,672 at the end of fiscal year 2022. Gross patient service charges, Payments, and Write-offs for contractual adjustments and bad debts are all somewhat higher than last year, with increases ranging from 1.5% to 6.0%. The Reserve for contractual adjustment and bad debt is down from last year at \$47,310,541 and represents 75.8% of the gross patient accounts receivable. Management believes this is a good estimate of the uncollectible amounts and subsequently the collectible amount represented by the net patient receivable, based on historical trends and the composition of the patient accounts receivable.

Table 4 - Condensed Statements of Net Position - Liabilities and Deferred Inflows of Resources

	<i>June 30, 2022</i>
CURRENT LIABILITIES:	
Due to related parties	\$ 1,192,395
Accounts payable	18,707,516
Accrued compensation and benefits	20,913,035
Accrued interest	124,261
Third-party advanced payments	66,004
Current portion of long-term debt	1,000,000
Current portion of lease liability	7,739,568
TOTAL CURRENT LIABILITIES	<u>49,742,779</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

	<u>June 30,</u> <u>2022</u>
OTHER LONG-TERM LIABILITIES:	
Long-term debt, less current portion	25,345,000
Lease liability, less current portion	44,043,975
TOTAL LIABILITIES	<u>\$ 119,131,754</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred lease revenue	726,588
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 726,588</u>

The nature of the liability section changed significantly this year with the implementation of GASB Statement No. 87. Several new accounts are now included which have markedly increased the total liability balance. The present values of lease payments are now recorded as lease liabilities at the commencement of the agreements. At June 30, 2022 these amounts were \$7,739,568 for the current portion (due within 12 months) and \$44,043,975 for the long-term portion for a total lease liability of \$51,783,543. This balance will reduce each year as lease payments are made. If the leases are renewed and extended then the balance would be recalculated based on the new terms of the leases. There is also \$124,261 of accrued interest recorded, related to the July 2022 lease payments.

The accounts payable balance is \$18,707,516 at June 30, 2022. This category is generally comprised of amounts due to vendors who provide goods and services used for daily operations. These include medical and office supplies, temporary services, recruitment, etc. Remaining in this total is an overpayment made by the Agency for Health Care Administration (AHCA) in 2014 relating to UPL payments. AHCA has been notified with follow-up on several occasions and the Company is awaiting instructions. This amount was increased by \$1,800,000 in fiscal year 2021 and an additional \$7,000,000 in fiscal year 2022 to account for potential refunds of LIP funds previously received. AHCA has begun a process of auditing each year of LIP payments and some uncertainty exists regarding the format of data submitted from the eligible medical schools. Initial audits were conducted for funds received in fiscal year 2018 and 2019 and the results indicated a combined net receivable of \$1,211,000.

Accrued compensation and benefits, at \$20,913,035 is the largest category of current liabilities. The year-end balance for accrued salaries and other compensation was \$6,544,049, as due to timing, there was nearly three weeks of compensation unpaid at June 30, 2022. Also included in this category is \$5,900,131 for accrued paid time off and \$5,179,306 of accrued health insurance expense. Another component of this balance is \$1,771,728 of deferred employer payroll tax that the Company has not paid, a part of the relief efforts provided by the federal government related to the COVID-19 pandemic. This balance reached \$3,581,995 at December 31, 2020 and \$1,810,267 was paid in fiscal year 2022. The remaining balance is due December 31, 2022.

The line item, third party advanced payments, was the advance Medicare payments of \$4,412,439 the company received in April 2020 related to the COVID-19 pandemic. Hold backs

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

began in April 2021 and ended in fiscal year 2022. The remaining balance of \$66,004 represents accounts that need to be reconciled.

Long-term debt totals \$26,345,000 at year-end 2022 including the current portion of \$1,000,000. In fiscal year 2019 two new Healthcare Facilities Revenue Notes, Series 2019A and Series 2019B were issued on behalf of the Company. The proceeds of the Series 2019A note, \$3,655,000, were used to refund the outstanding principal balance of tax-exempt Health Facilities Revenue Bonds that were issued in May 2002. A \$935,000 payment was made on this note in June 2021, leaving a balance of \$980,000 which was paid in June 2022. The Series 2019B note was used to finance the project costs of the Wildlight facility, with advances made at amounts expended, on a monthly basis. The year-end balance on this note was \$26,345,000, the maximum amount authorized to be borrowed on the Series 2019B note, with annual principal payments scheduled to begin June 1, 2023. For further information on this debt including the repayment schedule, see Note G in the financial statements.

Lastly, the amount due to related parties, at \$1,192,395 is composed of a small balance of \$8,166 owed to Shands Jacksonville, \$937,712 owed to the University for various fees and other expenses, and \$246,517 due to Shands at the University of Florida, Inc. for Epic related costs.

Also related to GASB Statement No. 87, a deferred lease revenue balance of \$726,588 was recorded for fiscal year 2022 and represents the present value of future lease payments from the organizations that lease space from UFJP. This balance will be amortized on a straight line basis over the terms of the leases.

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

	<i>Year Ended June 30, 2022</i>
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OPERATING REVENUE:	
Net patient service revenue	\$ 282,975,858
Other revenue	1,133,257
Charity care settlement	7,325,896
Contributions from Shands Jacksonville Medical Center, Inc.	45,031,075
Management and other fees	36,000
Lease interest income	23,561
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TOTAL OPERATING REVENUE	336,525,647

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

	<i>Year Ended June 30, 2022</i>
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OPERATING EXPENSES:	
Salaries and benefits	121,922,907
Other operating expenses	43,653,531
Dean's Fund	6,517,629
Program support accounts	875,811
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TOTAL OPERATING EXPENSE	172,969,878
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OPERATING INCOME	163,555,769
NONOPERATING REVENUE (EXPENSES):	
Interest expense	(833,005)
Lease interest expense	(1,569,049)
Investment loss	(443,088)
Loss on disposal of capital assets	(91,835)
Change in mark-to-market of interest rate swap	3,276,814
Gain on sale of membership interest	7,179,511
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NET NONOPERATING REVENUE	7,519,348
	<hr/>
INCREASE IN NET POSITION BEFORE TRANSFERS	171,075,117
TOTAL TRANSFERS	(169,829,520)
	<hr/>
INCREASE IN NET POSITION	<u>\$ 1,245,597</u>

Operating Revenues: Total operating revenue net of the estimated provision for contractual adjustments and uncollected amounts totaled \$336,525,647, an increase of just under \$3 million and less than 1% from prior year. Net patient service revenue of \$282,975,858, also up less than 1% from fiscal year 2021, is the largest component. There were increases in deliveries of 6.3% and ER visits of 4.3%. However, there was a decline in office visits of 1.1% and surgical procedures of 2.2% this year as compared to the prior year leading to a fairly stagnant level of net patient service revenue. UPL funds were approximately \$39,999,000 while the LIP funding was approximately \$20,159,000. Both of these sources were down by about \$1.5 million each from prior year. See Note C for a detailed description of the UPL and LIP programs. Continued participation in Pay for Performance/Shared Savings plans resulted in nearly \$5.9 million recorded as revenue during the current fiscal year. These payments came mainly from Blue Cross Blue Shield and Wellcare programs that reward physicians based on quality and cost containment measures. Indirect patient service revenue related to contractual arrangements decreased by 5.0%, or \$1,104,840 to \$20,916,006. This was mainly the result of the termination of a contract related to Pediatric Cardiology.

Contributions from Shands Jacksonville Medical Center, which is the second largest category of revenue, increased by just under \$1,000,000 in fiscal year 2022 to \$45,031,075. Shands

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Jacksonville funds various support services for the Company including medical directorships, the trauma program, administrative support, new program development, and other areas. Shands Jacksonville also provides funding to cover the deficits incurred by the Company of certain hospital-based clinics.

Other revenue was just \$1,133,527 for fiscal year 2022. There was minimal funding for meaningful use of electronic health records as that program has ended. Other miscellaneous sources were down this year as well. The Charity care settlement revenue increased to \$7,325,896. This was an increase of about \$3,000,000 over prior year. Shands Jacksonville, which manages the city contract charity program has received increased funding from the city over the past several years. An analysis was done and a portion of the increased funding was allocated to physician services and paid to UFJP.

Operating Expenses: Total operating expenses of \$172,969,878 (excluding transfers) represents an increase of \$7,096,820 or 4.3% over last year. Salaries and benefits for UFJP staff easily remain the most significant costs, at just over 70% of the total operating expenses. These expenses amounted to \$121,922,907 for fiscal year 2022. Salaries for all UFJP staff total \$96,032,000 with another \$2,178,000 in extra duty and incentive pay for Advanced Practice Providers (APPs). A 2% pay raise was provided to UFJP staff effective December 27, 2020, which caused higher salary expense in the first 6 months of fiscal year 2022, as compared to the first 6 months of fiscal year 2021. A 3% pay raise was provided effective December 26, 2021 which also caused salaries for the second half of the fiscal year to be higher than in the same time period in fiscal year 2021. Combined, these increases led to an approximate \$2.2 million increase in salary expense. The costs of employee benefits for UFJP employees totaled \$23,713,000 for fiscal year 2022. Of that total, health insurance costs accounted for \$12,872,360 or about 54%. Other large components are FICA tax expense at \$6,301,000; retirement contributions at \$2,041,000; and PTO accrual at \$1,514,000.

Other operating expenses totaled \$43,653,531 and represents the second largest category of expenditures. This category includes such UFJP costs as lease amortization expense, utilities, medical supplies, office supplies, temporary services, repairs and maintenance, and depreciation and amortization on capital assets. Several new accounts are included in this category related to the implementation of GASB Statement No. 87. Amortization expense for the right-of-use assets related to property leases is \$8,263,523 and the amortization of the right-of-use asset related to equipment leases is \$154,444. In conjunction with these accounts, lease expense related to property type leases decreased from last year by just under \$6.5 million while lease expense related to equipment dropped by about \$78,000. Other categories of significant amounts include supplies, both medical and office at \$9,014,000, depreciation on fixed assets at \$5,663,449, repairs and maintenance at \$4,676,000 and fees for various purchased services at \$3,560,000.

The expense categories representing the Dean's Fund totaled \$6,517,629 while expenses in the program support accounts amounted to \$875,811. Both of these amounts were in line with the amounts from fiscal year 2021.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Non-Operating Items: Non-operating consists of such items as interest expense, interest income, unrealized gains/losses and gains/losses on disposal of assets. Of the total Net non-operating revenue of \$7,519,348, the majority came from the \$7,179,511 gain on the sale of the membership interest in the NMOB. This membership interest was sold in December 2021. For the current year there was an unrealized loss of \$721,667 in the amount invested in SPIA with the state of Florida. Both interest income, at \$278,581 and interest expense, at \$833,005 were consistent with prior year amounts. Also impacting the non-operating items was the interest rate swap on the long term debt. The interest rate swap was entered in February 2020 when the variable one-month LIBOR was at 1.7%. The subsequent decrease in the rate environment created the need for the Company to record an unrealized loss in fiscal year 2020 for the change in mark to market of the interest rate swap, in the amount of \$5,341,024, and a corresponding liability. In fiscal year 2021, due to the change in the variable interest rate, the liability was reduced and the Company recorded an unrealized gain of \$2,161,494. Again in fiscal year 2022, the Company was able to reduce the liability and record an unrealized gain of \$3,276,814. This essentially eliminated the initial liability established in fiscal year 2020. For a more detailed explanation on the change in long term debt, see the discussion in the liability section above and refer to Note G in the financial statements. Also, now included in the non-operating section is lease interest expense for the interest portion of lease payments that fall under GASB Statement No. 87. For fiscal year 2022 the amount of this expense is \$1,569,049.

Transfers: Transfers represent payments to the University to cover the expenses of salaries and benefits of the faculty physicians and other UF staff. The amount paid increased by \$9,429,711 or 5.9% to \$169,829,520 for fiscal year 2022. While there was a 2.0% decrease in faculty physician FTEs, going from 463.4 in fiscal year 2021 to 454.3 in fiscal year 2022 there were also equity raises given to several groups of faculty throughout the year. This led to an approximate \$2.0 million net increase in faculty salary expense payments. The amount of incentives and bonuses for the faculty also increased by over \$1.1 million from fiscal year 2021. The fringe benefit rate charged by the University on faculty salaries increased slightly from 18.0% to 18.3% and combined with the increase in salaries the fringe benefit expense for faculty went up by about \$670,000. The fringe benefit rate for the UF TEAMS employees (non-faculty staff) increased by an average of 2.3% which also led to a rise in payments. As mentioned, this category represents payments to the University, and approximately \$3.4 million of the increase from prior year represents a timing difference from year to year.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Table 6 - Condensed Statement of Cash Flows

	<i>Year Ended June 30, 2022</i>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 196,300,912
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(169,829,520)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(28,307,176)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>6,699,528</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,863,744
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>37,802,186</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 42,665,930</u></u>

Cash Provided by Operating Activities: Net cash provided by operating activities for the year was \$196,300,912, reflecting a significant increase of just over \$61.6 million from last year. The majority of the increase, \$60.3 million, came from total cash receipts from operating activities which was \$346,444,143 in fiscal year 2022. As with prior years, the largest source of cash, at \$295,998,023, was from clinical services provided by UF faculty and advanced practice providers to patients, as well as from UPL and LIP payments. The funds for these services come from Medicare, Medicaid, other insurers and institutions as well as patients themselves. The next highest source of cash was from receipts from affiliates which, at \$40,147,974 is \$4,205,970 less than last year's receipts in this category. Shands Jacksonville was one month behind in monthly payments at the end of the year. Payments for the charity care settlement increased to \$7,325,896 due to the increase in funding discussed in the revenue section. Receipts from other revenue were consistent at \$2,912,689.

Total cash expended for operating activities was \$150,143,231 and was in line with the amount expended last year. It should be noted that in relation to the implementation of GASB Statement No. 87, nearly \$9 million of expenditures related to lease payments is now in the Capital and Financing Activity section and will be explained there. By far, the largest use of cash is for the salaries and benefits for UFJP employees, and totaled \$122,170,593 for fiscal year 2022. Payments for UF faculty physicians and staff are included below as noncapital financing activities. Payments for operating expenses were \$20,579,168 while payments for the Dean's Fund and program support accounts were \$7,393,440. The operating expense category is where all lease payments previously were classified.

Cash Flows From Noncapital Financing Activities: The payments to the University to cover the salaries and benefits of faculty physicians and other UF staff rose from \$160,399,809 to \$169,829,520, representing an increase of \$9,429,711 or 5.9%. This was due to increases in costs

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

related to the salary and benefits for faculty physicians and UF TEAMS (non-faculty staff), as well as timing differences from year to year. Please see the explanation in the Transfers section for more details.

Cash Flows From Capital and Related Financing Activities: Capital and Related Financing Activities was a significant use of cash in fiscal year 2022, with a total of \$28,307,176 used. The purchase of capital assets for the year of \$7,668,249 was about \$4.7 million more than last year. The vast majority of the cash used in fiscal year 2022 was for the purchase of and build out of the new UF Health East medical facility. See the Capital Assets section in the discussion on assets for more detail regarding capital purchases in fiscal year 2022. In June 2021, the Company received proceeds of \$10 million from a short-term line of credit. As the UPL payments related to fiscal year 2021 were received in early fiscal year 2022, the short-term line of credit was repaid. A principal payment of \$980,000 was made on the long-term debt. Interest expense paid on this debt was \$833,005 in fiscal year 2022. With GASB Statement No. 87, leases are treated as financing activities. As such, payments for leases are a use of cash for a financing activity as opposed to an operating activity. Principal payments on lease liabilities in fiscal year 2022 were \$7,286,458 while related interest payments were \$1,569,049.

Cash Flows From Investing Activities: The net cash provided by investing activities in fiscal year 2022 was \$6,699,528. The loss on the SPIA investment, offset by interest income reduced cash by \$479,983. However, the sale of the interest in the NMOB provided an increase in cash of \$7,179,511. Details related to investing activities were previously explained in the Non-Operating Items section.

ECONOMIC OUTLOOK

Fiscal year 2022 patient volumes began lower than expected as the impact of the Coronavirus omicron variant continued through September 2021 and then began to subside. As a result of vaccinations that became available in January 2021 and other public health measures, the impact to the healthcare industry was fewer coronavirus related hospitalizations. However, the availability of staffing resources continued to be limited and consequently significantly increased costs. The Coronavirus pandemic that began in March 2020 in the United States has continued to impact the global economy as well. Availability of qualified workers and supply chain issues have impacted all industries of the global economy, including the United States. The financial impact of the pandemic to UFJP and Shands Jacksonville was initially limited as a result of Federal stimulus programs. However, during fiscal year 2022 stimulus funding was limited while wage demands increased significantly for healthcare workers. The initial stimulus programs and possible additional programs could further increase the national debt and negatively impact the economy for several years in the future. The overall state and local economies have begun to recover from the initial shutdown, but labor issues and supply shortages have driven prices up to an annual inflation rate of over 9% in June 2022, the highest level in over 40 years. The state's unemployment rate since February 2020's 3.3% rose to a high of 14.2% in May 2020, lowered to 5.1% in August 2021 and has returned to below 3% in August 2022. Vaccinated patients have begun visiting doctor's offices and most elective procedures are being performed again.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

The state of Florida continues to be attractive for individuals relocating from other areas of the country. About 350,000 new residents moved to Florida last year and the state has had three of the ten fastest growing metropolitan areas in the nation. Based on the 2020 census, the Northeast Florida and Southeast Georgia population now exceeds 1.7 million people. The primary service area for UFJP consists of Duval, Nassau, Clay, St. Johns and Baker counties in Northeast Florida. Housing construction and home sales accelerated as a consequence of low interest rates and high demand for property in the area. However, shortage of labor and construction materials have impacted the construction industry and home prices have increased dramatically. The Federal Reserve held the effective federal funds rate at or below 0.10% since April 2020, but now has aggressively begun to increase the federal funds rate to help combat price increases and inflation. Apartment occupancy remains high even with significant increases in rental rates. Demand for retail and office space has continued to decrease with many companies continuing to utilize online shopping platforms and remote work structures.

As of June 2022, the state of Florida had an estimated 3.0 million uninsured residents with the Northeast Florida area containing about 10% of the state uninsured total. Florida did not implement Medicaid expansion with the Affordable Care Act in 2010 and implemented statewide Medicaid Reform in May 2014 utilizing a managed care structure. Florida had over 5.3 million eligible Medicaid enrollees as of June 2022 with 79% participating in a managed care arrangement. The Northeast Florida area (Region 4) had a total of 539,000 eligible Medicaid enrollees representing about 10% of the state total. Close to 82% of the Northeast Florida Medicaid enrollees participate in a managed care arrangement. In the short term, it is expected that the state of Florida will continue the Medicaid managed care arrangement as opposed to Medicaid expansion.

Associated with the Medicaid program, the Upper Payment Limit (UPL) or Physicians Supplement Payment program continued this year with the academic centers paid a preset capitation based on the entire Medicaid membership in their region. For fiscal year 2022, as with fiscal year 2021, the practice plan received additional funds related to a Fee for Service Enhancement program with UPL and a new funding source through the State's Low Income Pool (LIP) distribution. Going forward, the overall UPL and LIP payment methodology is anticipated to be similar to previous years and continue to follow the same methodology for the next few years. For UPL, uncertainty exists as evidenced by previous attempts to change the methodology such as the proposed Medicaid Fiscal Accountability Rule which would have significantly impacted the state Medicaid program financing and supplemental payments to providers. The Centers for Medicare & Medicaid Services (CMS) withdrew its proposed rule from its regulatory agenda in September 2020 and may address at a later time. For Low Income pool (LIP), uncertainty existed for the term of the program beyond 2022 and CMS recently confirmed with the state's AHCA that the LIP program is scheduled to continue until 2030.

UFJP and Shands Jacksonville have continued to expand its services in Northeast Florida to meet the needs of the growing population in the area. In March 2015, UFJP and Shands Jacksonville became the primary occupants of the Medical Office Building on the North campus providing a range of services including emergency medicine, radiology, outpatient surgery, lab services and

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

physician clinical space. Adjacent to the Medical Office Building, Shands Jacksonville opened a hospital bed tower with 92 beds in May 2017. Occupancy and utilization of the North campus facilities has continued to grow with high inpatient occupancy and increased outpatient visits and surgical procedures. In December 2019, UFJP completed the construction of a 43,000 square foot medical services building to primarily serve the residents of the Wildlight master planned community in Nassau County, Florida. The medical services building contains urgent care, imaging, laboratory, primary care, pediatrics, women's health, mental health, dentistry and more recently in 2021, orthopedics and urology services. Shands Jacksonville opened an outpatient rehabilitation clinic and adjacent YMCA fitness center in the Wildlight community in October 2020. A free-standing outpatient imaging center was opened in March 2020 in the Baymeadows area of Jacksonville. A new Brain Wellness Program opened in August 2021 with supplemental funding provided through the Gary Sinise Foundation / Avalon Network and will focus on services for military veterans. One primary care clinic was closed in 2021 with the departure of the physician to another health system.

The local healthcare market remains very competitive throughout Northeast Florida with all the major health systems expanding facilities and services. UFJP and Shands Jacksonville are strategically situated to address the competition with the strength of its primary care satellite clinic locations, as well as, the operation of the Emerson Medical Park on the Southside, the UF Health campus on the Northside, and the new Wildlight medical services and hospital ancillary services buildings in Nassau County. Also, as a response to the social distancing recommendations at the beginning of the coronavirus pandemic, UFJP significantly increased the number and type of telemedicine visits. UFJP has continued to provide this service delivery model even with patients shifting back to in person clinic visits.

For the coming year, UFJP and Shands Jacksonville plan to further expand its presence in the Northeast Florida market. An additional bed tower at the North Campus is currently being designed with construction to begin during fiscal year 2023. Also, three free-standing emergency room / urgent care locations are scheduled to be opened by Shands Jacksonville during fiscal year 2023 with UF Emergency Medicine physicians staffing the centers. A collaboration with another physician group will result in the opening of a new ambulatory surgery center and medical office building at the intersection of JTB and Kernan Boulevard. UFJP will own and occupy the second floor of the medical office building and provide MRI services on the first floor in addition to performing procedures in the first floor surgery center.

Reimbursement for healthcare services continues to change with different reimbursement models from governmental and commercial payers based on performance. The first year of measurement for MACRA, the Medicare Access and CHIP Reauthorization Act was in calendar year 2017 and its resulting changes in reimbursement under the Merit-based Incentive Program System (MIPS) was effective for calendar year 2019. Under the MIPS structure for Medicare, providers are rated based on service-value criteria and good performers are granted increases in rates and underperformers have rate decreases. UFJP has been consistently ranked as a good performer under the MIPS structure. The Physician Quality Reporting System (PQRS) and Meaningful Use programs for Medicare were merged along with the Value Based Modifier program into

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

MACRA. However, Medicaid continued Meaningful Use until 2021 as the final year. These “Pay for Performance Programs” have been significant for UFJP with over \$40.2 million received from PQRS, quality and shared savings programs and over \$12.8 million in Meaningful use since inception. The Quality/Pay for Performance models going forward with commercial payers will be primarily a shared-savings model which UFJP already participates. With the increased utilization of telemedicine, both governmental and commercial payers temporarily implemented less stringent criteria and higher reimbursement rates during the pandemic. Future qualifying criteria and rates will be evaluated based on the status of the pandemic and overall utilization of telemedicine.

Healthcare information systems continue to evolve and the UF Health enterprise remains dedicated to utilizing additional features of the EPIC system. Epic software applications have been in place at UFJP since November 2012 beginning with scheduling, registration, billing, collections and then an electronic medical records system with the ability to auto charge capture. EPIC modules were implemented at the Shands Jacksonville and Shands Gainesville prior to 2012. Additional modules were subsequently implemented including population health management, online patient portal and medical records, integrated eligibility and enrollment, electronic refunds and integrated lab orders and results.

In 2020, a number of Epic enhancements were implemented including a new orthopedic module and an integration application to assist providers with an automated workflow to support regulatory requirements related to prescribing controlled substances. Real Time Eligibility (RTE) and query chaining were implemented in 2020. ACR Select (aka CareSelect Imaging) was chosen to meet the new CMS requirements that providers are required to consult clinical decision support (CDS) for all outpatient advanced diagnostic imaging orders. A Social Determinants of Health module was configured and implemented in 2020. Also in 2020, COVID-19 related changes were completed in the information system applications including updated check-in screenings, enhanced discharge information, telemedicine structure completed for all providers, and lastly, remote Epic training with the use of recorded content.

In 2021, additional COVID-19 related changes were made as guidance was updated from various agencies. Patient self-service kiosks were installed in some clinics offering the Epic Welcome module to allow patients to complete registration and check-in. The credit card integration project was completed in 2021 with standardized machines and processing to post copays and self-pay balances automatically to the patient's account upon receipt. COVID-19 specific vaccination services were incorporated in scheduling, tracking and billing modules. A dual authentication application was implemented in 2021 for offsite network access. The SBO module in EPIC was implemented in October 2021 and combines the patient's self-pay balances for the physician and the hospital services to one statement.

In 2022, set up was completed in EPIC for a new referral centralization structure and automatic Medicare authorizations. EPIC workflows were updated and developed in the denials module to decrease authorization denials and to include the recent CMS No-Surprise Act requirements. For

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

financial reporting, a lease accounting application was implemented to accommodate the new GASB reporting requirements for leases.

Future Enhancements in EPIC are planned to include referral auto authorizations, continued referral centralization and automation of admission certificates. A new application, LUMA, is planned to be implemented to provide patients with text reminders, appointment requests, no-contact arrival and referral automation. An automatic insurance refund process is being developed similar to the existing automatic patient refund process in EPIC. Lastly, project planning is expected to begin for the conversion of the current payroll and human resources systems to the PeopleSoft application.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

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

Financial Statements

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statement of Net Position

	<i>June 30, 2022</i>
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ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 42,665,930
Patient accounts receivable, net of estimated uncollectibles and contractual adjustments of \$47,310,541	15,075,672
Current portion of lease receivables	125,532
Other receivables	43,200,326
Prepaid expenses and other current assets	2,173,791
Due from Shands Jacksonville Medical Center, Inc.	5,698,897
Due from Faculty Clinic, Inc.	63,654
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TOTAL CURRENT ASSETS	109,003,802
NON-CURRENT ASSETS:	
Estimated fair value of interest rate swap	97,284
Lease receivables, less current portion	637,951
	<hr/>
TOTAL NON-CURRENT ASSETS	735,235
CAPITAL ASSETS:	
Land	3,748,493
Building	23,408,791
Equipment	36,094,937
Computer software	15,863,033
Leasehold improvements	18,655,419
Construction in progress	4,688,629
Right-of-use assets	59,070,001
	<hr/>
TOTAL CAPITAL ASSETS	161,529,303
Accumulated depreciation and amortization	(68,297,221)
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TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	93,232,082
	<hr/>
TOTAL ASSETS	<u>\$ 202,971,119</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statement of Net Position - Continued

	<i>June 30, 2022</i>
LIABILITIES	
CURRENT LIABILITIES:	
Due to University of Florida	\$ 937,712
Due to Shands Jacksonville Medical Center, Inc.	8,166
Due to Shands at the University of Florida, Inc.	246,517
Accounts payable	18,707,516
Accrued compensation and benefits	20,913,035
Accrued interest	124,261
Third-party advanced payments	66,004
Current portion of long-term debt	1,000,000
Current portion of lease liabilities	7,739,568
TOTAL CURRENT LIABILITIES	<u>49,742,779</u>
OTHER LIABILITIES:	
Long-term debt, less current portion	25,345,000
Lease liabilities, less current portion	44,043,975
TOTAL LIABILITIES	<u>119,131,754</u>
DEFERRED INFLOW OF RESOURCES	
Deferred lease revenue	726,588
TOTAL DEFERRED INFLOW OF RESOURCES	<u>726,588</u>
COMMITMENTS AND CONTINGENCIES - Note L	
NET POSITION:	
Net investment in capital assets	15,103,539
Unrestricted	68,009,238
TOTAL NET POSITION	<u>83,112,777</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 202,971,119</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statement of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30, 2022</i>
OPERATING REVENUE:	
Patient service revenue, net of contractual allowance and discounts	\$ 323,105,927
Provision for bad debts	(40,130,069)
Net patient service revenue	<u>282,975,858</u>
Other revenue	1,133,257
Charity care settlement	7,325,896
Contributions from Shands Jacksonville Medical Center, Inc.	45,031,075
Lease interest income	23,561
Management and other fees	<u>36,000</u>
TOTAL OPERATING REVENUE	<u>336,525,647</u>
OPERATING EXPENSES:	
Salaries and benefits	121,922,907
Other operating expenses	43,653,531
Dean's Fund	6,517,629
Program support accounts	<u>875,811</u>
TOTAL OPERATING EXPENSES	<u>172,969,878</u>
OPERATING INCOME	163,555,769
NONOPERATING REVENUE (EXPENSES):	
Interest expense	(833,005)
Lease interest expense	(1,569,049)
Investment loss	(443,088)
Loss on disposal of capital assets	(91,835)
Change in mark-to-market of interest rate swap	3,276,814
Gain on sale of membership interest	<u>7,179,511</u>
NET NONOPERATING REVENUE	<u>7,519,348</u>
INCREASE IN NET POSITION BEFORE TRANSFERS	171,075,117
TRANSFERS:	
Transfers to the University of Florida, College of Medicine	<u>(169,829,520)</u>
INCREASE IN NET POSITION	1,245,597
NET POSITION, BEGINNING OF YEAR	<u>81,867,180</u>
NET POSITION, END OF YEAR	<u>\$ 83,112,777</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statement of Cash Flows

	<i>Year Ended June 30, 2022</i>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from and on behalf of patients	\$ 295,998,023
Receipts from other revenue	2,912,689
Receipts from charity care settlement	7,325,896
Receipts from affiliates	40,147,974
Other receipts	59,561
Payments to and on behalf of employees	(122,170,593)
Payments for operating expenses	(20,579,198)
Payments to Dean's Fund	(6,517,629)
Payments to program support accounts	(875,811)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>196,300,912</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Payments to the University of Florida, College of Medicine	<u>(169,829,520)</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	<u>(169,829,520)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(7,668,249)
Proceeds from sales of capital assets	29,585
Principal payments on lease liabilities	(7,286,458)
Principal payments on long-term debt	(980,000)
Repayment of line of credit	(10,000,000)
Interest paid - lease liabilities	(1,569,049)
Interest paid - long-term debt	(833,005)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(28,307,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and other costs	(479,983)
Proceeds from sale of membership interest	7,179,511
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>6,699,528</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,863,744
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>37,802,186</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 42,665,930</u></u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statement of Cash Flows - Continued

	<i>Year Ended June 30, 2022</i>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 163,555,769
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	14,081,416
Provision for bad debts	40,130,069
Increase (decrease) in cash due to change in:	
Patient accounts receivable, net	(42,010,821)
Other receivables	20,036,689
Prepaid expenses and other current assets	118,593
Due to/from Shands Jacksonville Medical Center, Inc., net	(5,352,720)
Due to/from Faculty Clinic, Inc., net	(649)
Due to University of Florida	470,268
Accounts payable	8,874,324
Accrued compensation and benefits	(247,686)
Third-party advanced payments	(3,354,340)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 196,300,912</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset additions in accounts payable	<u>\$ 200,536</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements

Year Ended June 30, 2022

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 statement 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, 2022, the Company supports the University's operation of clinics in Duval County, Florida, and surrounding counties, and South Georgia in furtherance of its purposes as an approved health services support organization to the University under Florida Board of Governors' Regulation 9.011.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Company is accounted for as an internal service fund. Internal service funds are used to account for the financing of goods and services by one college or agency to independent agencies and other governments.

The Company's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities, as prescribed by the Governmental Accounting Standards Board (GASB). The Company reports as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting.

Basis of Accounting: The Company's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenue, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

place. Revenue, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The Company follows GASB standards of accounting and financial reporting.

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

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

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

Capital Assets: The Company's capital assets are reported at historical cost with the exception of right-of-use assets which are recorded equal to the lease liability plus any initial direct costs, prepayments, or incentives. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related capital assets or the lesser of the lease term or estimated useful life for right-of-use 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 statement of revenue, expenses and changes in net position. Maintenance and repair costs are expensed as incurred. The Company periodically reviews capital assets for indicators of potential impairment. If this review indicates that the carrying amount of these assets may not be recoverable, the Company estimates the future cash flows expected to result from the operations of the asset and its eventual disposition. If the sum of these future cash flows

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

(undiscounted and without interest charges) is less than the carrying amount of the asset, a write-down to estimated fair value is recorded.

Lease Liabilities: The present value of lease payments is recorded as a lease liability at the commencement of a contract that has a term in excess of one year. The present value is determined by discounting the required payments using the stated or implicit interest rate in the lease or, if not stated or implied, the Company's incremental borrowing rate. Payments include options to extend, or terminate, if the Company determines that it is reasonably certain that such options will be exercised.

Lease Receivable: The Company's lease receivables are measured at the present value of lease payments expected to be received during the lease term. Under the lease agreements, the Company will receive variable lease payments based on the year as stated in the terms of the contract. The payments are recorded as inflow of resources in the period the payments are received.

A deferred inflow of resources is recorded for the leases. The deferred inflow of resources are recorded at the initiation of the leases in an amount equal to the initial recording of the lease receivables. The deferred inflow of resources are amortized on a straight-line basis over the term of the leases.

Accrued Compensated Absences: The COM employees earn paid time off (PTO) days based on established policies. The University assumes the liabilities for accrued compensated absences through the establishment of a Fringe Benefit Pool. The Company transfers funds as required to support the University's Fringe Benefit Pool. The Company's employees earn PTO based on established policy. Liabilities for accrued PTO were \$5,900,131 at June 30, 2022.

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, 2022.

Operating Revenue and Expenses: The Company's statement of revenue, expenses and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, the Company's principal activity. Other revenue and contributions received for purposes other than capital asset acquisition are also reported as operating revenue. Nonoperating revenue consists primarily of investment income, positive changes in the fair value of an interest rate swap agreement and nonoperating gains. Operating expenses are all expenses incurred to support the University physicians in their provision of healthcare services, other than financing costs and nonoperating losses. Nonoperating expenses consist of interest expense, investment loss, loss on

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

disposals of property and equipment and negative changes in the fair value of an interest rate swap agreement.

Income Taxes: The Company is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is exempt from state income taxes. Accordingly, no provision for income taxes has been included in the accompanying financial statements. At June 30, 2022, management does not believe the Company holds any uncertain tax positions. Tax returns for the years ended June 30, 2019 through 2022 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 Adopted Accounting Pronouncements: In June 2017, GASB issued Statement No. 87, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases with a maximum possible term exceeding 12 months. The lease liability is measured at the present value of payments made during the lease term. In later periods, the lessee should amortize the discount of the lease liability and report it as an outflow of resources (interest expense) for the period. The lease asset is measured as the sum of the amount of the initial measurement of the lease liability, lease payments made to the lessor at/before the beginning of the lease term, and any initial direct costs. A lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset and reported as an amortization expense. UFJP has adopted the Statement in the basic financial statements effective July 1, 2021.

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

Net patient service revenue is derived principally from professional fees charged to patients treated by the faculty of the COM and indirect patient service revenue is based on negotiated contracts with sponsoring organizations to receive professional services for their members. A reconciliation of the amounts of services provided to patients at established rates to net patient service revenue as presented in the statement of revenue, expenses and changes in net position for the year ended June 30, 2022 is as follows:

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

Gross direct patient service charges	\$ 692,063,890
Indirect patient service revenue	<u>20,916,006</u>
	712,979,896
Less: Estimated contractual adjustments	(389,873,969)
Estimated uncollectible accounts	<u>(40,130,069)</u>
	(430,004,038)
Net patient service revenue	<u><u>\$ 282,975,858</u></u>

Patient service revenue net of contractual allowances by major payer source for the year ended June 30, 2022 is as follows:

Third party payers	\$ 279,695,761
Patients responsibility, including self insured	<u>43,410,166</u>
	<u><u>\$ 323,105,927</u></u>

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

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

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

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

Medicaid Physician Upper Payment Limit (UPL): Physicians employed by or under contract with a Florida medical school are eligible to receive supplemental reimbursement under the Medicaid UPL program. Net patient service revenue for 2022 includes \$39,999,396 related to the UPL program. Other receivables at June 30, 2022 included \$36,124,062 in expected future payments under the UPL program.

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

Low Income Pool (LIP): UFJP receives funding under the LIP program, which is a federal matching program that provides federal funds to Florida health care providers to cover costs for the state's most vulnerable patients. Medical school physician practices are eligible under this program. Funding for the LIP program comes from intergovernmental transfers (IGT) and federal matching funds. IGTs are transfers of funds to the Agency for Health Care Administration from non-Medicaid governmental entities. IGT funds are then used to draw down federal matching funds and payments are made to eligible providers. Providers are encouraged to contribute funds to ensure maximum payments from the LIP program. Net patient service revenue for the year ended June 30, 2022 includes \$20,158,764 related to this program.

Amounts earned under contractual arrangements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments which may result from such reviews. Activity with respect to these reviews has increased and is expected to continue to increase in the future. No additional 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, 2022 is summarized as follows:

Patient accounts receivable based on established charges	\$ 62,386,213
Estimated reserve for contractual allowances and uncollectible accounts	<u>(47,310,541)</u>
Patient accounts receivable, net	<u>\$ 15,075,672</u>

Net patient accounts receivable as of June 30, 2022 consists of the following:

Insurance carriers under commercial plans	\$ 4,447,234
Managed care plans	2,719,051
Medicare	2,368,926
Medicaid	1,542,539
Patients, including self insured	3,292,270
Other	<u>705,652</u>
	<u>\$ 15,075,672</u>

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

The activity relating to the estimated allowance for contractual adjustments and uncollectible accounts for the year ended June 30, 2022 is summarized as follows:

Beginning balance	\$ 49,407,725
Provision for bad debts	40,130,069
Charge-offs	<u>(42,227,253)</u>
Ending balance	<u>\$ 47,310,541</u>

The Company's estimated allowance for contractual adjustments and uncollectible accounts decreased from the beginning of the year due to increased charge-offs during the year ended June 30, 2022.

NOTE D--BOARD DESIGNATED FUNDS

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

NOTE E--RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions:

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

The Company also leases office space from Faculty Clinic for its administrative staff. The Company will vacate the office space upon request from the Faculty Clinic. Lease payments for

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

the year ended June 30, 2022 were \$648,315. These amounts are allocated between lease liability reductions and interest expense in the financial statements. 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 \$36,000 for the year ended June 30, 2022. This amount is included in management and other fees in the accompanying statement of revenue, expenses and changes in net position.

The Company had a receivable from Faculty Clinic of \$63,654 at June 30, 2022.

Shands Jacksonville: The University and the Company have entered into numerous annual agreements with Shands Jacksonville. At June 30, 2022, the Company had a receivable from Shands Jacksonville of \$5,698,897, and a payable to Shands Jacksonville of \$8,166. 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 \$6,499,998 in 2022. 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 year ended June 30, 2022 were \$44,061,691. Such amounts are included in Contributions from Shands Jacksonville Medical Center, Inc. in the accompanying statement 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 year ended June 30, 2022, the Company received \$969,384 from Shands Jacksonville related to the operation of clinics. Such amounts are included in Contributions from Shands Jacksonville Medical Center, Inc. in the accompanying statement of revenue, expenses and changes in net position.

The Company pays for space leased by the University from Shands Jacksonville under various leases (see Note H). Lease payments under these leases were \$1,507,899 in 2022.

Shands at the University of Florida, Inc.: The Company and Shands at the University of Florida, Inc. (Shands at UF) have a revenue cycle and electronic medical records system. Shands at UF incurs costs associated with the maintenance of this system that the Company and Shands at UF have determined should be allocated to the Company. As of June 30, 2022, the Company owed Shands at UF \$246,517 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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

to these physicians in 2022 was \$84,977 and are included in other operating expenses in the accompanying statement of revenue, expenses and changes in net position.

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

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

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

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

Self-Insurance Program contribution costs charged against operations for the year ended June 30, 2022 were \$1,065,991. Premiums paid to HEIC for the year ended June 30, 2022 were \$526,965. No amounts were due to the Self-Insurance Program or the HEIC at June 30, 2022.

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

NOTE F--CAPITAL AND LEASE ASSETS

Capital asset activity, excluding lease assets, for the year ended June 30, 2022 is as follows:

	<i>Balance at July 1, 2021</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2022</i>
Capital assets:					
Land	\$ 3,748,493	\$ -	\$ -	\$ -	\$ 3,748,493
Building	23,348,945	59,846	-	-	23,408,791
Equipment	33,981,963	1,635,120	(243,571)	721,425	36,094,937
Computer software	15,535,522	48,821	-	278,690	15,863,033
Leasehold improvements	18,115,905	366,262	(359,054)	532,306	18,655,419
Construction in progress	616,935	5,604,115	-	(1,532,421)	4,688,629
Total capital assets	95,347,763	7,714,164	(602,625)	-	102,459,302
Accumulated depreciation:					
Building	2,928,606	779,980	-	-	3,708,586
Equipment	23,853,930	3,385,679	(225,249)	-	27,014,360
Computer software	14,732,559	702,042	-	-	15,434,601
Leasehold improvements	13,181,915	795,748	(255,956)	-	13,721,707
Total accumulated depreciation	54,697,010	5,663,449	(481,205)	-	59,879,254
Capital assets, net	\$ 40,650,753	\$ 2,050,715	\$ (121,420)	\$ -	\$ 42,580,048

Lease assets activity for the year ended June 30, 2022 is as follows:

	<i>Balance at July 1, 2021</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2022</i>
Lease assets:					
Right-of-use asset - equipment	\$ -	\$ 521,991	\$ -	\$ -	\$ 521,991
Right-of-use asset - building	-	58,548,010	-	-	58,548,010
Total lease assets	-	59,070,001	-	-	59,070,001
Accumulated amortization:					
Right-of-use asset - equipment	-	154,444	-	-	154,444
Right-of-use asset - building	-	8,263,523	-	-	8,263,523
Total accumulated amortization	-	8,417,967	-	-	8,417,967
Total lease assets, net	\$ -	\$ 50,652,034	\$ -	\$ -	\$ 50,652,034

Estimated costs to complete construction in progress at June 30, 2022 was approximately \$16,257,000 and relates to a new medical building, facility renovations and related projects.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

UFJP has recorded right-of-use assets as a result of implementing GASB Statement No. 87. The right-of-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, plus ancillary charges necessary to place the lease into service. The right-of-use assets are amortized on a straight-line basis over the life of the related lease. Further discussion regarding the related lease liabilities can be found in Note H.

NOTE G--LONG-TERM DEBT

Activity in long-term debt for the year ended June 30, 2022 is as follows:

	<i>Balance at July 1, 2021</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2022</i>	<i>Amounts Due Within One Year</i>
Notes from direct borrowings:					
Healthcare Facilities Revenue Note, Series 2019A	\$ 980,000	\$ -	\$ (980,000)	\$ -	\$ -
Healthcare Facilities Revenue Note, Series 2019B	26,345,000	-	-	26,345,000	1,000,000
Total Long-Term Debt	<u>\$ 27,325,000</u>	<u>\$ -</u>	<u>\$ (980,000)</u>	<u>\$ 26,345,000</u>	<u>\$ 1,000,000</u>

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

In 2019, the Issuer issued its Healthcare Facilities Revenue Note, Series 2019B, in a principal amount not to exceed \$26,345,000 (the Series 2019B Note) which was purchased by the Noteholder as advances were made under the Series 2019B Note and loaned to the Company to finance approved project costs and pay the issuance costs of the Series 2019B Note. The Company is responsible for making payments directly to the Noteholder on the Series 2019A Note and Series 2019B Note (the Series 2019 Notes). The Series 2019 Notes require a monthly interest payment based on a variable rate of 81% of the Adjusted one-month LIBOR Rate. The variable rate was 1.50% for the Series 2019B Note at June 30, 2022. The Series 2019A Note matured June 1, 2022. The Series 2019B Note matures April 1, 2044, with annual principal payments beginning June 1, 2023. The Series 2019B Note contains a mandatory tender where the

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

Company agrees to purchase the Series 2019B Note on the noteholder put date of April 17, 2034 or April 17, 2039 for an amount equal to 100% of the outstanding principal unless notified 120 days in advance by the Noteholder.

The Company has a revolving line of credit with a bank in the amount of \$10,000,000. The line of credit has an expiration date of February 1, 2023. There were no amounts outstanding on this line of credit as of June 30, 2022.

There are restrictive covenants contained in the agreement related to the Series 2019 Notes. Among other things, the Company is restricted as to additional borrowings or liens on property, mergers and acquisitions and sale of assets. In addition, the Company is required to maintain a debt service coverage ratio of 1.10 and a liquidity ratio no less than 0.50. The Company was in compliance with these restrictive financial covenants at June 30, 2022. The Series 2019 Notes are secured by security agreements between the Company and the Noteholder which grant the Noteholder an interest in all assets, properties and rights of the Company with certain exceptions.

The estimated future debt service requirements of the Series 2019B Note, based on the interest rate in effect at June 30, 2022 and the principal balance outstanding at the date, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2023	\$ 1,000,000	\$ 395,114	\$ 1,395,114
2024	1,000,000	380,117	1,380,117
2025	1,000,000	365,119	1,365,119
2026	1,000,000	350,121	1,350,121
2027	1,100,000	335,124	1,435,124
2028-2032	5,700,000	1,426,656	7,126,656
2033-2037	6,300,000	981,225	7,281,225
2038-2042	6,500,000	498,299	6,998,299
2043-2044	2,745,000	62,090	2,807,090
	<u>\$ 26,345,000</u>	<u>\$ 4,793,865</u>	<u>\$ 31,138,865</u>

NOTE H--LEASE LIABILITIES

UFJP has entered into agreements to lease certain equipment and property. The lease agreements qualify as other than short-term leases under GASB Statement No. 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

There are a significant amount of agreements entered into with various vendors. There are no variable payment components for any lease. Each lease liability is measured at various discount rates based on

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

the terms, date of service, classification of item and other factors pertaining to the contract. The associated right-of-use assets are discussed in more detail in Note F.

A schedule of changes in the UFJP's lease liabilities is as follows:

	<i>Balance at July 1, 2021</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2022</i>	<i>Amount Due Within One Year</i>
Lease equipment	\$ -	\$ 521,991	\$ 150,072	\$ 371,919	\$ 129,365
Lease buildings	-	58,548,010	7,136,386	51,411,624	7,610,203
Total lease liabilities	\$ -	\$ 59,070,001	\$ 7,286,458	\$ 51,783,543	\$ 7,739,568

The UFJP leases equipment and property under lease agreements which expire at various dates. Future minimum lease payments under leases are as follows:

<i>Year Ending June 30,</i>	<i>Principal Payments</i>	<i>Interest Payments</i>	<i>Total</i>
2023	\$ 7,739,568	\$ 1,396,652	\$ 9,136,220
2024	6,834,294	1,180,454	8,014,748
2025	5,066,567	1,010,319	6,076,886
2026	4,862,443	867,356	5,729,799
2027	4,772,550	728,140	5,500,690
2028-2032	16,606,750	1,932,896	18,539,646
2033-2037	5,353,901	292,870	5,646,771
2038-2042	269,348	60,652	330,000
2043-2047	278,122	18,878	297,000
	<u>\$ 51,783,543</u>	<u>\$ 7,488,217</u>	<u>\$ 59,271,760</u>

NOTE I--LEASE RECEIVABLE

The UFJP has entered into agreements with various parties to provide land and buildings. Non-cancelable lease terms range from 3 years to 6 years. Monthly minimum lease payments range from \$4,731 to \$5,730. The lease receivables are measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 2.9%, which is the implicit rate. During the year ended June 30, 2022, UFJP recognized \$135,371 of lease revenue and \$23,561 of interest revenue.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

NOTE J--INTEREST RATE SWAP AGREEMENT

With respect to the Series 2019 Notes, the Company executed a swap agreement with an effective date of February 3, 2020, where the Company receives a variable rate equal to 81% of the one-month LIBOR-BBA rate and pays a fixed rate of 2.266%, on the notional amount of \$26,345,000 at June 30, 2022. The Company also paid a loan spread fee of 81% of 79 basis points, on the notional amount outstanding at the effective date of February 3, 2020. This agreement terminates April 1, 2034 unless terminated at an earlier date.

Although the swap instrument is intended to manage exposure to interest rate risks associated with the debt instruments referred to above, the swap agreement has not been determined to be an effective hedge. Accordingly, the interest rate swap is reflected in the accompanying statement of net position at its aggregate fair value (an asset of \$97,284 at June 30, 2022) and the change in the value of the swap is reflected as a component of nonoperating revenue in the statement of revenue, expenses and changes in net position for the year ended June 30, 2022. Management has considered the effects of any credit value adjustment, and while management believes the estimated fair value of the interest rate swap agreement is reasonable, the estimate is subject to change in the near term.

NOTE K--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 statement of revenue, expenses and changes in net position for the year ended June 30, 2022 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 year ended June 30, 2022, 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, 2022. Full vesting of the Company contributions occurs after five years of service. Retirement plan expense for the Company for this retirement plan was \$2,041,339 for the year ended June 30, 2022.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

NOTE L--COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse, and under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Congress adopted comprehensive health care insurance legislation, *Patient Protection and Affordable Care Act* and *Health Care and Educational Reconciliation Act*. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens through a combination of public program expansion and private industry health insurance.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

Changes to existing Medicaid coverage and payments have occurred and are expected to continue to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

Third-Party Advanced Payments: During 2020, as part of the response to the coronavirus disease 2019 (COVID-19) pandemic and in conjunction with the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund program, the Centers for Medicare and Medicaid Services implemented the Medicare Accelerated and Advanced Payment Programs which speeds Medicare payments to providers in times of emergency, based on historical payments. Providers were eligible to request up to 100% of Medicare payment amounts for a three-month period. Under the Continuing Appropriations Act, 2021 and Other Extensions Act, repayment is to begin one year from the issuance date of each provider or supplier's accelerated or advance payment. After that first year, CMS will automatically recoup 25 percent of Medicare payments otherwise owed to the provider or supplier for eleven months. At the end of the eleven-month period, recoupment will increase to 50 percent for another six months. The Company received \$4,412,439 of advanced payments during the year ended June 30, 2020. CMS recouped \$992,095 in 2021 and \$3,354,340 in 2022. Remaining funds received of \$66,004 are reflected as a current liability as of June 30, 2022.

NOTE M--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 2022 are likely to be understated due to the lengthy lag time in the patient qualification process. These services, which are excluded from net patient service revenue, were approximately \$18,893,000 in 2022 at the Company's established rates. Charges foregone related to other charity patients was approximately \$20,744,000 in 2022. The estimated direct and indirect cost of providing these services totaled approximately \$18,566,000 in 2022.

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

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying value of its financial instruments, including cash and cash equivalents, patient accounts and other receivables, accounts payable and accrued expenses, accrued compensation and benefits and amounts due to or from other organizations are at fair value, or approximate fair value, due to the nature and short-term maturities of these instruments. 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.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

NOTE O--SALE OF MEMBERSHIP INTEREST

The Company owned a 12.22% membership interest in Jacksonville Medical Office Building, LLC (the LLC). The membership interest was previously accounted for as a cash basis activity and there was no consideration given at the time of investment or subsequent thereto. In December 2021, the North Medical Office Building which was owned by the LLC was sold for a total allocated value of \$160,000,000. The \$7,179,511 gain recognized in the statement of revenue, expenses and changes in net assets for the year ended June 30, 2022 represents an allocation of the Company's 12.22% membership on the Member proceeds net of adjusted capital return.

NOTE P--FAIR VALUE MEASUREMENT

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

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

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

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

At June 30, 2022, the Company had no assets meeting the criteria for disclosure.

The following table presents assets reported at fair value as of June 30, 2022, and their respective classification under the GASB Statement No. 72 valuation hierarchy:

Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2022:

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Assets:				
Interest rate swap agreement	\$ 97,284	\$ -	\$ -	\$ 97,284

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

NOTE Q--CORONAVIRUS DISEASE 2019 IMPACT

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

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

NOTE R--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, 2022 financial statements.

Other Information

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

	<i>Year Ended June 30, 2022</i>
REVENUE	\$ -
EXPENDITURES:	
Salaries and benefits	164,847,436
Other operating expenses	<u>1,550,670</u>
Total expenditures	166,398,106
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	(166,398,106)
TRANSFERS:	
From University of Florida Jacksonville Physicians,	<u>169,829,520</u>
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES	3,431,414
NET DEFICIENCY, BEGINNING OF YEAR	<u>(14,106,818)</u>
NET DEFICIENCY, END OF YEAR	<u><u>\$ (10,675,404)</u></u>



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 Florida 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, 2022, 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 22, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not 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 financial statements. 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 22, 2022