



Financial Statements (and Other Information)

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

Years Ended June 30, 2023 and 2022

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Table of Contents

Years Ended June 30, 2023 and 2022

Independent Auditor’s Report.....1

Management’s Discussion and Analysis4

Financial Statements

Statements of Net Position.....21
Statements of Revenue, Expenses, and Changes in Net Position23
Statements of Cash Flows.....24
Notes to Financial Statements.....26

Other Information

Statements of Revenue, Expenditures, and Changes in Net Position of the Miscellaneous
Gifts and Grants Fund - Unaudited.....47
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 Report48

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 years ended June 30, 2023 and 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, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Statements of Revenue, Expenditures, and Changes in Net Position of the Miscellaneous Gifts and Grants Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the 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 25, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PYA, P.C.

Tampa, Florida
September 25, 2023

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) (Practice Plan) is intended to provide an overview of the financial results for the year ended June 30, 2023. 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

UFJP's financial results in Fiscal Year 2023 were better than budget and the impact of the coronavirus pandemic was less than in previous years. However, ramifications related to the pandemic continue to be present with the most significant related to the labor force. A shortage of workers in the healthcare industry and higher inflation have led to significant wage pressures that many healthcare entities are challenged to meet. UFJP has continued to monitor the labor market and provide staff wage increases as appropriate. UF faculty physicians' compensation is also being monitored closely to remain competitive in recruitment and retention. In addition, continued delays with funding from the Upper Payment Limit (UPL) program has contributed to decreased operating cash for the Practice Plan.

During Fiscal Year 2023, UFJP completed construction of a new multi-service clinic on the southside of Jacksonville and leased additional clinical space in the Deerwood Park area. Clinical operations in the Emerson Medical Plaza were relocated to the two new southside sites. Also, Shands Jacksonville Medical Center, Inc. (Shands Jacksonville) (the Hospital) opened three free-standing emergency department (FSED) facilities and the UF College of Medicine-Jacksonville (COM-J) provided the physician staffing. In the fall of 2021, The State University System of Florida Board of Governors ordered a review of all the state university support organizations' internal controls. UFJP was included in this review and the final UFJP report was issued in August 2022. The internal control report included two observations for improvement that UFJP management has addressed. Lastly, a new accounting standard was implemented in Fiscal Year 2023 by UFJP to report the future value and obligations of subscription based software.

The overall Practice Plan results for FY 2023 was a deficit of \$(1,781,000) and includes the \$(1,389,000) decrease in net position of UFJP and the \$(392,000) decrease of the Miscellaneous Gifts and Grants Fund (MG&G) outlined in the supplemental schedule. This represents an \$1.4 million positive variance from budget, as the fiscal year 2023 budget was a deficit of \$(3,158,000) for all funds (Operating, Dean's, Program Support Accounts (PSA) and MG&G) of the Practice

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

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 \$16.8 million, which was \$5.8 million more than budget and quality/shared savings receipts of \$1.8 million more than budget. Also, other revenue was ahead of budget by \$3.0 million primarily related to the funding of the physicians at the FSEDs and staff vacancies contributed to a \$8.5 million budget savings. However, these factors were offset by the negative budget variances of (1) increased physician salaries, call pay/extra duty and benefits of \$6.0 million, (2) increased physician bonuses of \$3.1 million, (3) increased temporary physician cost (locum tenens) of \$4.1 million (4) lower than budget net patient revenue of \$4.4 million and (5) an unbudgeted lease interest expense related to the implementation of GASB Statements No. 87 and No. 96 of \$1.4 million. The PSA and Dean's Fund had a \$436,000 unfavorable budget variance for the year as a result of higher than anticipated research expenses. An unbudgeted Non-operating gain of \$1.3 million was recognized in FY 2023 consisting of an unrealized gain on the interest rate swap for the Series 2019 Notes.

Total operating revenue for FY2023 increased by \$22,893,826 or 6.8% from prior year. The largest portion of the increase was growth in patient service revenue including an increase in Charity care settlement. Other revenue also increased from prior year by \$9,155,012 as a result of reimbursement from staffing the FSED's, additional reimbursement of call coverage and fiscal year 2022 included a reduction for an additional allowance. Gross clinical revenue excluding charity increased from the prior year by 2.9% or \$17.8 million. Improved payor mix with an increase in commercial volume to 29.7% also supported the increase in operating revenue. Pay for performance, value based and shared savings programs' receipts were \$6,234,000 for fiscal year 2023, an increase of \$341,000 from the previous year. Charity gross clinical revenue decreased 6.4% in FY2023 and decreased 17% in FY2022 from respective prior years. Net charity care funding from the Hospital was \$8.3 million for specialty care services rendered to eligible City of Jacksonville residents.

Total operating expenses including transfers to cover physician salaries and benefits increased from last year by \$17,788,147 or 5.2%. Factors related to the expense increase included physician and staff salary raises, increase in physician call/extra duty pay, increase in utilization of locum tenens physician services and physician staffing of the FSED's.

Non-operating revenue for FY 2023 includes an unrealized gain of \$1,254,825 for the market value adjustment related to the interest rate swap agreement on the Series 2019 Notes and a \$436,562 unrealized gain on investments held in the State of Florida Special Purpose Investment Account (SPIA). Non-operating expense for FY 2023 includes interest expense on the Series 2019 Notes primarily for the construction of the Wildlight medical services center and lease interest expense in accordance with GASB Statements No. 87 and No. 96 reporting.

In relation to the statements of net position, total assets decreased from the prior year by \$6,185,967 primarily as a result of a \$4.9 million decrease of right-of-use assets due to amortization exceeding additions related to lease and subscription arrangements under GASB Statements No. 87 and No. 96 reporting. Other large changes were in cash and cash equivalents,

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

other receivables and capital assets. Cash and cash equivalents decreased from the prior year by \$21,785,363 as a result of construction of the southside multi-service clinic and purchase of equipment to be leased to the surgery center at the same southside facility. UPL funding was delayed past the fiscal year end in both FY 2023 and FY 2022. Other receivables increased \$7,158,743 in anticipation of higher UPL funding for FY 2023 and contract revenue. Included in the cash and cash equivalents is the UFJP balance of \$18.8 million in SPIA and represents a \$10.0 million decrease from prior year. Total capital assets, net increased as a result of the new southside clinic and surgery center equipment, offset by amortization of the right-of-use lease and subscription assets.

Current liabilities decreased by \$1,103,916 and the category with the largest change was a decrease in accrued compensation and benefits of \$6,591,908 as a result of a lower month end payroll accrual and payment of the previously deferred taxes related to the pandemic relief. Current portion of long-term debt increased as the scheduled 2023 principal payment was made after June 30, 2023. This resulted in no reduction to 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 \$1,352,109 long-term asset. The total outstanding principal balance of the Series 2019 Notes on June 30, 2023 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 statements of net position. For leases on which the Company is the lessee, a lease liability and a right-of-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 statements of net position. The Company implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA) for fiscal year 2023. This statement requires balance sheet recognition of a subscription liability and right-of-use subscription asset for substantially all SBITAs with a maximum possible term exceeding 12 months. Accounts affected by these implementations 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.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Table 1 - Condensed Statements of Net Position – Assets

	June 30, 2023	June 30, 2022	Increase (Decrease)	Percent Change
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 20,880,567	\$ 42,665,930	\$ (21,785,363)	-51.1%
Patient accounts receivable, net	14,927,323	15,075,672	(148,349)	-1.0%
Current portion of lease receivables	132,477	125,532	6,945	5.5%
Other receivables	50,359,069	43,200,326	7,158,743	16.6%
Prepaid expenses and other current assets	2,125,481	2,173,791	(48,310)	-2.2%
Due from related parties	7,393,692	5,762,551	1,631,141	28.3%
TOTAL CURRENT ASSETS	95,818,609	109,003,802	(13,185,193)	-12.1%
NON-CURRENT ASSETS				
Estimated fair value of interest rate swap	1,352,109	97,284	1,254,825	1289.9%
Lease receivables, less current portion	505,170	637,951	(132,781)	-20.8%
TOTAL NON-CURRENT ASSETS	1,857,279	735,235	1,122,044	152.6%
CAPITAL ASSETS, NET				
	97,987,220	93,232,082	4,755,138	5.1%
TOTAL ASSETS	\$ 195,663,108	\$ 202,971,119	\$ (6,185,967)	-3.0%

Current assets declined this year by about \$13.2 million or 12.1% to a total of \$95,818,609. This decline is due entirely to the decrease in the cash balances at year end. Cash and cash equivalents at \$20,880,567, is less than one half of the \$42,665,930 total at the end of fiscal year 2022. The balance is composed of \$1,889,599 in operating cash accounts and \$18,990,968 in SPIA and other short term investment accounts. Patient accounts receivable, at a net balance of \$14,927,323 represents amounts expected to be collected from patients as well as insurers or government programs and is slightly (1.0%) down from prior fiscal year. Other receivables ended the year with a balance of \$50,359,069, a significant increase of \$7,158,743 or 16.6% over the balance at June 30, 2022. Approximately 84% of this balance, or \$42.4 million is related to the UPL funding. This is an increase of nearly \$6.3 million over June 30, 2022. The Company recognized \$3.6 more of UPL revenue in fiscal year 2023 compared to fiscal year 2022, but as of June 30, 2023 the Company had not received any of the funding that flows through the managed care organizations. Receivables for contract revenue stands at \$7,229,993 at year end, primarily from contracts with Wolfson Children's Hospital. Due from related parties is up \$1.6 million this year, at \$7,393,692. 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 and also owed for agreements related to the three new free standing emergency department and urgent care facilities which opened in March and April of 2023. There is also a small amount as a receivable from Faculty Clinic, Inc. Prepaid expenses at \$2.1 million is consistent with prior years. The current and non-current lease receivables accounts total \$637,647, down about \$125,000 from prior fiscal year. 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.

Also, in the Non-Current Assets section, and related to the Series 2019A and Series 2019B notes, is an asset for the estimated fair value of an interest rate swap agreement. This balance is up to

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

\$1,352,109 from last year's balance of \$97,284. When the notes were issued the Company also entered into an interest rate swap agreement with a start date of February 1, 2020, the end of the construction draw period. The fixed rate of the swap was set at 2.27%. At June 30, 2023 the swap rate was 2.5% lower than the one-month variable Secured Overnight Financing Rate (SOFR) rate. The asset amount is the estimated market value of the swap agreement based on the rate difference on the balance of the debt for the term of the agreement. For further information on this see Note J in the financial statements.

Table 2 - Capital Assets

	<i>June 30,</i>		<i>Increase</i>	<i>Percent</i>
	<i>2023</i>	<i>2022</i>	<i>(Decrease)</i>	<i>Change</i>
CAPITAL ASSETS, NET:				
Land and improvements	\$ 3,748,493	\$ 3,748,493	\$ -	0.00%
Building	26,870,966	19,700,205	7,170,761	36.40%
Equipment	8,932,970	9,080,577	(147,607)	-1.63%
Computer software	279,507	428,432	(148,925)	-34.76%
Leasehold improvements	6,291,256	4,933,712	1,357,544	27.52%
Construction in progress	6,155,290	4,688,629	1,466,661	31.28%
Right-of-use assets	45,708,738	50,652,034	(4,943,296)	-9.76%
CAPITAL ASSETS, NET	<u>\$ 97,987,220</u>	<u>\$ 93,232,082</u>	<u>\$ 4,755,138</u>	<u>5.10%</u>

The Company's investment in capital assets, net of accumulated depreciation and amortization, is the Company's largest asset category. The 2023 fiscal year-end balance of \$97,987,220 is almost \$10 million more than the 2022 fiscal year-end balance. Approximately \$15,500,000 in capital assets were acquired during fiscal year 2023, offset by annual depreciation and amortization of \$5,432,000 and net disposals of \$26,000. In fiscal year 2022, \$50,652,034 of right-of-use assets were recorded 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 balance in this account at June 30, 2023 also includes subscription assets and is \$45,708,738.

The most significant item affecting the capital assets for fiscal year 2023 is the new UF Health East multi-service clinic. This is part of a new three story medical facility located in the southeast part of Jacksonville that was built in collaboration with another physician group. The Company bought, built out and furnished the second floor of the building. The cost to purchase and build out the second floor was approximately \$8.2 million, while the costs of equipment and furnishings was an additional \$1.0 million. Approximately \$4.4 million of the purchase and build out costs were recorded in the construction in progress (CIP) account at the end of fiscal year 2022 and were transferred into the building account in fiscal year 2023. Thus, the net increase to capital assets in fiscal year 2023 related to the second floor was \$4.8 million. The company is also leasing space within the ASC on the first floor for an imaging suite containing an MRI machine. The cost of the MRI equipment was about \$1 million, and around \$1.4 million was spent to build out the space. As part of the collaboration with the other physician group, the Company is purchasing the equipment for the ASC that will open on the first floor, and will in turn lease the equipment to the

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

company operating the ASC. The cost of the equipment purchased as of June 30, 2023 is just under \$5.9 million and is currently in the CIP account.

With the opening of the new multi-service clinic, the Company moved out of space that was leased in the Emerson One building. However, more space was needed than was available in the new facility, as departments are looking to expand services in that part of the city, so additional space was leased in the nearby Deerwood Center One building, primarily for Internal Medicine and Cardiology practices. About \$390,000 was spent on leasehold improvements and new equipment and furniture for this space.

The Orange Park Women's Center moved to a new location in the Mandarin area of Jacksonville. Related to this move, \$60,000 was spent on leasehold improvements and \$65,000 on new equipment. The costs for capital assets acquired for the medical departments were around \$940,000. Included in this total is \$240,000 for Cardiology, \$165,000 for Ophthalmology, \$115,000 for Radiology, \$140,000 for Surgery and \$124,000 for Urology. Approximately \$260,000 of capital purchases were for the satellite clinics and included \$55,000 for new air conditioners at several sites and \$70,000 of leasehold improvements at various locations.

The balance in the construction in progress category at June 30, 2023 is \$6,155,290. Of this total, \$5,826,000 is for equipment purchased for the ASC at UF Health East. This equipment will be put into use in July 2023 and as previously noted, will be leased to the company operating the ASC.

Purchases related to information technology and systems totaled about \$330,000. Of this total, \$208,000 was for purchases of PCs, laptops, etc. while \$102,000 was for items related to the virtual desktop infrastructure. The cost of information system software and technology to provide professional services billing, appointment scheduling, point of service functions, the electronic health records (EHR) and other related processes 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). There were no major additions in fiscal year 2023. A detail of all additions, retirements and accumulated depreciation is provided in Note F.

Table 3 - Patient Accounts Receivable

	<i>Year Ended June 30,</i>		<i>Increase</i>	<i>Percent</i>
	<i>2023</i>	<i>2022</i>	<i>(Decrease)</i>	<i>Change</i>
Beginning accounts receivable	\$ 62,386,213	\$ 62,602,646	\$ (216,433)	-0.35%
Charges	710,486,253	692,063,890	18,422,363	2.66%
Payments	(272,613,272)	(260,544,939)	(12,068,333)	4.63%
Write-off for contractual adjustments and bad debts	(433,463,298)	(431,735,384)	(1,727,914)	0.40%
Patient accounts receivable	66,795,896	62,386,213	4,409,683	7.07%
Reserve for contractual adjustments and bad debts	(51,868,573)	(47,310,541)	(4,558,032)	9.63%
Total patient accounts receivable, net	\$ 14,927,323	\$ 15,075,672	\$ (148,349)	-0.98%

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Patient accounts receivable is down slightly from last year and continues to be less than 10% of the Total Assets. Net of estimated uncollectibles and contractual adjustments, the balance in this category decreased to \$14,927,323 at the end of fiscal year 2023. 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 0.4% to 4.6%. The Reserve for contractual adjustment and bad debt is up from last year at \$51,868,573 and represents 77.65% 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,</i> 2023	<i>2022</i>	<i>Increase</i> <i>(Decrease)</i>	<i>Percent</i> <i>Change</i>
CURRENT LIABILITIES:				
Due to related parties	\$ 3,682,071	\$ 1,192,395	\$ 2,489,676	208.80%
Accounts payable	21,358,195	18,707,516	2,650,679	14.17%
Accrued compensation and benefits	14,321,127	20,913,035	(6,591,908)	-31.52%
Accrued interest	114,679	124,261	(9,582)	-7.71%
Third-party advanced payments	-	66,004	(66,004)	-100.00%
Current portion of long-term debt	2,000,000	1,000,000	1,000,000	100.00%
Current portion of lease liability	7,059,304	7,739,568	(680,264)	-8.79%
Current portion of subscription liability	103,487	-	103,487	100.00%
TOTAL CURRENT LIABILITIES	48,638,863	49,742,779	(1,103,916)	-2.22%
OTHER LONG-TERM LIABILITIES:				
Long-term debt, less current portion	24,345,000	25,345,000	(1,000,000)	-3.95%
Lease liability, less current portion	40,195,574	44,043,975	(3,848,401)	-8.74%
Subscription liability, less current portion	168,399	-	168,399	100.00%
TOTAL LIABILITIES	\$ 113,347,836	\$ 119,131,754	\$ (5,783,918)	-4.86%
DEFERRED INFLOWS OF RESOURCES				
Deferred lease revenue	591,217	726,588	(135,371)	-18.63%
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 591,217	\$ 726,588	\$ (135,371)	-18.63%

The nature of the liability section changed significantly last year with the implementation of GASB Statement No. 87, with additional change this year due to the implementation of GASB Statement No. 96. 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, 2023 these amounts were \$7,059,304 for the current portion (due within 12 months) and \$40,195,574 for the long-term portion for a total lease liability of \$47,254,878. This balance is down from the total lease liability of \$51,783,543 at June 30, 2022. The balance reduces 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 \$114,679 of accrued interest recorded, related to the July 2023 lease payments. Similarly, with GASB Statement No. 96, the present value of software subscription services is also recorded as a liability. At June 30, 2023 the Company had a current liability of \$103,487 and a long term liability of \$168,399 related to software subscriptions.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

The accounts payable balance is \$21,358,195 at June 30, 2023, up 14.2% or \$2.65 million from prior year. 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. Included this year, and contributing to the increase is accruals for locum tenens expense incurred in fiscal year 2023 but not paid at year end. 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 years 2018 through 2021 and the results indicated a potential combined net payable of \$5.1 million.

Accrued compensation and benefits, at \$14,321,127 is down significantly from June 30, 2022. The total decrease is just under \$6.6 million or 31.5%. The year-end balance for accrued salaries and other compensation was \$3,373,692, as due to timing, there was one week of compensation unpaid at June 30, 2023, as compared to fiscal year 2022 when there was nearly three weeks of unpaid compensation at year-end. Also included in this category is \$6,081,528 for accrued paid time off and \$2,902,258 of accrued health insurance expense. Included in the fiscal year 2022 balance was \$1,771,728 of deferred employer payroll tax that the Company still owed, 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 was to be paid in fiscal year 2023; however, a small amount remains that is in question with the IRS.

The line item, third party advanced payments, was the advance Medicare payments of \$4,412,439 the company received in April 2020 also related to the COVID-19 pandemic. Hold backs began in April 2021 and ended in fiscal year 2022. The remaining balance of \$66,004 was reconciled in fiscal year 2023.

Long-term debt totals \$26,345,000 at year-end 2023 including the current portion of \$2,000,000. 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. The Series 2019A note was paid off in fiscal year 2022 with a final payment of \$980,000 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. Due to the bank not drawing the first scheduled principal payment until September 2023, the current portion of the liability is at \$2,000,000 as of June 30, 2023. For further information on this debt including the repayment schedule, see Note G in the financial statements.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Lastly, the amount due to related parties stands at \$3,682,071, an increase of almost \$2.5 million from fiscal year end 2022. The largest portion of the current year balance is fees and other expenses owed to the University of Florida, at \$2,571,000. This amount is up by \$1.6 million from last year as there were several invoices that had not been received at year end related to malpractice insurance, contract services, software, etc. as well as an amount owed back to the University due to an overpayment. Also included in the overall total is \$506,900 owed to Shands Jacksonville and \$604,145 due to Shands at the University of Florida, Inc. for Epic related costs.

Also related to GASB Statement No. 87, a deferred lease revenue was recorded in fiscal year 2022 with a current balance of \$591,217 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 Statements of Revenue, Expenses, and Changes in Net Position

	<i>Year Ended June 30,</i> <i>2023</i>	<i>2022</i>	<i>Increase</i> <i>(Decrease)</i>	<i>Percent</i> <i>Change</i>
OPERATING REVENUE:				
Net patient service revenue	\$ 295,669,470	\$ 282,975,858	\$ 12,693,612	4.49%
Other revenue	10,288,269	1,133,257	9,155,012	807.85%
Charity care settlement	8,291,321	7,325,896	965,425	13.18%
Contributions from Shands Jacksonville Medical Center, Inc.	45,114,848	45,031,075	83,773	0.19%
Management and other fees	32,004	36,000	(3,996)	-11.10%
Lease interest income	23,344	23,561	(217)	-0.92%
TOTAL OPERATING REVENUE	359,419,256	336,525,647	22,893,826	6.80%
OPERATING EXPENSES:				
Salaries and benefits	125,188,541	121,922,907	3,265,634	2.68%
Other operating expenses	52,560,194	43,653,531	8,906,663	20.40%
Dean's Fund	6,069,739	6,517,629	(447,890)	-6.87%
Program support accounts	1,078,177	875,811	202,366	23.11%
TOTAL OPERATING EXPENSE	184,896,651	172,969,878	11,926,773	6.90%
OPERATING INCOME	174,522,605	163,555,769	10,967,053	6.71%
NONOPERATING REVENUE (EXPENSES):				
Interest expense	(909,419)	(833,005)	(76,414)	9.17%
Lease interest expense	(1,442,615)	(1,569,049)	126,434	-8.06%
Investment gain (loss)	897,978	(443,088)	1,341,066	-302.66%
Loss on disposal of capital assets	(21,202)	(91,835)	70,633	-76.91%
Change in mark-to-market of interest rate swap	1,254,825	3,276,814	(2,021,989)	-61.71%
Gain on sale of membership interest	-	7,179,511	(7,179,511)	100.00%
NET NONOPERATING REVENUE	(220,433)	7,519,348	(7,739,781)	-102.93%
INCREASE IN NET POSITION BEFORE TRANSFERS	174,302,172	171,075,117	3,227,272	1.89%
TOTAL TRANSFERS	(175,690,894)	(169,829,520)	(5,861,374)	3.45%
INCREASE (DECREASE) IN NET POSITION	\$ (1,388,722)	\$ 1,245,597	\$ (2,634,102)	-211.47%

Operating Revenues: Total operating revenue net of the estimated provision for contractual adjustments and uncollected amounts totaled \$359,419,256, an increase of just under \$23 million or 6.8% from prior year. Net patient service revenue of \$295,669,470, up 4.5% from fiscal year 2022, is the largest component. There were increases in ER visits of 8.9% and surgical procedures of 2.7% over prior year. However, there was a decline in office visits of 1.7% and deliveries of

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

5.9% this year as compared to the prior year. In spite of these decreases in encounter statistics, an improved payor mix, as compared to fiscal year 2022, with a higher ratio of commercial charges and lower ratio of Medicaid and indigent charges lead to a higher collection rate in fiscal year 2023, improving net patient revenue. For fiscal year 2023, UPL funds were \$43,625,000 and the LIP funding was \$16,822,000. While the UPL funds were \$3.6 million more than prior year, LIP funding was \$3.3 million less than prior year. See Note C for a detailed description of the UPL and LIP programs. Continued participation in Pay for Performance, Value Based and Shared Savings plans resulted in just over \$6.2 million recorded as revenue during the current fiscal year, an increase of \$342,000 from last year. These payments came mainly from Blue Cross Blue Shield and Wellcare programs that reward physicians based on quality and cost containment measures. Indirect patient service revenue related to contractual arrangements increased by 12.2%, or \$2,551,000 to \$23,467,285. Approximately 80% of contract revenue, and essentially all of the increase, is related to programs in the department of Pediatrics.

Contributions from Shands Jacksonville Medical Center, which is the second largest category of revenue, increased by a minimal \$83,773 in fiscal year 2023 to \$45,114,848. Shands Jacksonville funds various support services for the Company including medical directorships, the trauma program, administrative support, new program development, and other areas. Shands Jacksonville also provides funding to cover the deficits incurred by the Company of certain hospital-based clinics.

Other revenue was \$10,288,269, a substantial increase over the \$1,133,257 recorded for fiscal year 2022. In fiscal year 2022, other revenue was reduced by \$7.0 million to increase the reserve for LIP revenue to account for potential refunds of funds received in prior years, as explained earlier in the accounts payable discussion. The Charity care settlement revenue increased to \$8,291,321. This was an increase of about \$965,000 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 \$184,896,651 (excluding transfers) represents an increase of \$11,926,773 or 6.9% over last year. Salaries and benefits for UFJP staff easily remain the most significant cost, at just over 67% of the total operating expenses. These expenses amounted to \$125,188,541 for fiscal year 2023. Salaries for all UFJP staff total around \$95.2 million with another \$2.8 million in extra duty and incentive pay for Advanced Practice Providers (APPs). The salary amount is down from last fiscal year due to IT related employees that were transferred to the Hospital. UFJP pays a fee to the Hospital to cover the salary and benefit costs, which is classified as other operating expense. Had the transfer and reclassification of expense not occurred salary expense would have risen in fiscal year 2023. A 3% pay raise was provided to UFJP staff effective December 26, 2021, which caused higher salary expense in the first 6 months of fiscal year 2023, as compared to the first 6 months of fiscal year 2022. Another 3% pay raise was provided effective December 25, 2022 which also caused salaries for the second half of the fiscal year to be higher than in the same time period in fiscal year 2022. An additional market rate adjustment was put in place April 2, 2023 which led to additional increased salary expense.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Combined, these increases would have led to an estimated \$3.5 million increase in salary expense, had it not been for the movement of \$6 million of previous salary expense related to IT staff. The costs of employee benefits for UFJP employees totaled \$22,802,000 for fiscal year 2023. Of that total, health insurance costs accounted for \$11,412,000 or about 50%. Other large components are FICA tax expense at \$6,795,000; retirement contributions at \$2,056,000; and PTO accrual at \$1,563,000.

Other operating expenses totaled \$52,560,194 and represents the second largest category of expenditures. This total represents a significant \$8.9 million or 20.4% increase over prior year. The 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. Two components were the primary contributors to the large increase. The first, and accounting for about \$7.5 million of the increase, is fees. This is largely the result of transferring IT related employees to the hospital, and now classifying the payments made to the hospital for their salary and benefits as fees rather than salary and benefits. The second area is medical, lab, and drug supplies, which increased by a little more than \$1 million due to inflationary price increases, and now totals nearly \$8.1 million. Several new accounts are included in this category beginning with fiscal year 2022 related to the implementation of GASB Statements No. 87 and No. 96. Amortization expense for the right-of-use assets related to property leases is \$8,153,983, the amortization of the right-of-use asset related to equipment leases is \$131,232 and the amortization for software subscriptions is \$65,804. Other categories of significant amounts include depreciation on fixed assets at \$4,377,000, property related expenses such as CAM, real estate tax and insurance of \$2,653,000 and repairs and maintenance at \$4,940,000.

The expense categories representing the Dean's Fund totaled \$6,069,739 while expenses in the program support accounts amounted to \$1,078,177. The Dean's Fund total is a decrease from fiscal year 2022 of \$448,000 while the program support accounts had an increase of \$202,366.

Non-Operating Items: Non-operating consists of such items as interest expense, interest income, unrealized gains/losses and gains/losses on disposal of assets. In total, there was net non-operating expense for the current year of \$220,443 compared to net non-operating revenue of \$7,519,348 in fiscal year 2022. The majority of the fiscal year 2022 non-operating revenue 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 gain of \$436,562 in the amount invested in SPIA with the state of Florida. Both interest income, at \$457,452 and interest expense, at \$909,419 were slightly higher than 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 years 2021 and 2022, due to the change in the variable interest rate, the liability was eliminated and an asset was recorded as the Company recorded unrealized gains of \$2,161,494 and 3,276,814 respectively. Again in fiscal year 2023, the Company was able to record an unrealized gain of \$1,254,825. For a more detailed explanation on the change in long

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

term debt, see the discussion in the liability section above and refer to Note J 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 and software subscriptions that fall under GASB Statement No. 96. For fiscal year 2023 the combined amount of this expense is \$1,442,615.

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 \$5,861,374 or 3.5% to \$175,690,894 for fiscal year 2023. Faculty physician FTEs remained essentially flat compared to the prior year at 454.7. However, a 3% raise pool was initiated by the University and was effective October 1, 2022. This created an increase of approximately \$1.9 million for salary expense. There were also equity raises given to several groups of faculty throughout the year. This led to an additional estimated \$1.5 million net increase in faculty salary expense payments. The amount of incentives and bonuses for the faculty decreased by about \$1.6 million from fiscal year 2022. However, the amount paid out as one-time or lump sum payments increased by \$1.9 million. The fringe benefit rate charged by the University on faculty salaries increased from 18.3% to 19.6% and, combined with the increase in salaries the fringe benefit expense for faculty went up by about \$2.8 million. The fringe benefit rate for the UF TEAMS employees (non-faculty staff) increased by an average of 0.6% which also led to a rise in payments.

Table 6 - Condensed Statements of Cash Flows

	<i>Year Ended June 30,</i> 2023	<i>2022</i>	<i>Increase</i> <i>(Decrease)</i>	<i>Percent</i> <i>Change</i>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 178,318,321	\$ 196,300,912	\$ (17,982,591)	-9.16%
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(175,690,894)	(169,829,520)	(5,861,374)	3.45%
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(25,301,233)	(28,307,176)	3,005,943	-10.62%
NET CASH PROVIDED BY INVESTING ACTIVITIES	888,443	6,699,528	(5,811,085)	-86.74%
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(21,785,363)	4,863,744	(26,649,107)	-547.91%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	42,665,930	37,802,186	4,863,744	12.87%
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 20,880,567	\$ 42,665,930	\$ (21,785,363)	-51.06%

Cash Provided by Operating Activities: Net cash provided by operating activities for the year was \$178,318,321, reflecting a notable decrease of nearly \$18 million from last year. Total cash receipts from operating activities had an increase of about \$6.8 million and totaled \$353,201,393. As with prior years, the largest source of cash, at \$289,462,480, but down from last year by \$6.5 million, 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 \$45,973,383 is \$5,825,409 more than last year's receipts in this category. Payments for the charity care settlement increased to \$8,291,321 due to the increase in funding discussed in the revenue section. Receipts from other revenue were up by \$6.5 million in fiscal year 2023 to \$9,419,000.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

Total cash expended for operating activities was \$174,883,072, a significant \$24.7 million or 16.5% increase over the amount expended last year. By far, the largest use of cash is for the salaries and benefits for UFJP employees, and totaled \$131,780,449 for fiscal year 2023, an increase of \$9.6 million over fiscal year 2022. This increase was a combination of both increased expenses and timing. Due to the timing of pay dates at the end of fiscal year 2023, one additional paycheck was paid compared to prior year. Payments for UF faculty physicians and staff are included below as noncapital financing activities. Payments for operating expenses were \$35,954,707 while payments for the Dean's Fund and program support accounts were \$7,147,916, down slightly from last year.

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 \$169,829,520 to \$175,690,894, representing an increase of \$5,861,374 or 3.5%. This was due to increases in costs 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 net use of cash in fiscal year 2023, with a total of \$25,301,233, although \$3 million less than the amount used in prior year. The purchase of capital assets for the year of \$15,286,128 was about \$7.6 million more than last year. The vast majority of the cash used in fiscal year 2023 was for the purchase of and build out of the new UF Health East medical facility, and related operations at that location. See the Capital Assets section in the discussion on assets for more detail regarding capital purchases in fiscal year 2023. Fiscal year 2022 included the repayment of \$10 million from a short-term line of credit that had been borrowed in fiscal year 2021. A principal payment of \$980,000 was made on the long-term debt in fiscal year 2022; however, no principal payment was made in fiscal year 2023 due to the bank not drawing the principal payment until September 2023. Interest expense paid on this debt was \$909,419 in fiscal year 2023. With GASB Statements No. 87 and No. 96, leases and software subscriptions are treated as financing activities and payments for these are a use of cash for a financing activity as opposed to an operating activity. Principal payments on lease liabilities in fiscal year 2023 were \$7,663,071 while related interest payments were \$1,442,615. Combined these were about \$250,000 higher than last fiscal year.

Cash Flows From Investing Activities: The net cash provided by investing activities in fiscal year 2023 was \$888,443. This is a combination of the gain on the SPIA investment of 436,562 and interest income of \$451,881. This was down from last year, as fiscal year 2022 included the sale of the interest in the NMOB which 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 2023 patient volumes increased from the prior year in specialty services and emergency room visits, but decreased from prior year in the primary care clinics. Increases in specialty services were most notable at the Wildlight and new southside facilities and primary care

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

decreases were the result of fewer providers and the closure of two clinics. In total, Fiscal Year 2023 patient volumes exceeded the pre-pandemic volumes of Fiscal Year 2019 by 1%. However, consequences of the global pandemic such as the availability of qualified workers, increased credit costs and high inflation have impacted all industries in the United States, including healthcare. The financial impact to UFJP and Shands Jacksonville was higher wages, increased vacancies and increased supply costs. Although federal stimulus funding was previously available to offset the impacts of the pandemic, the additional federal debt is now negatively impacting the economy. The overall state and local economies have stabilized, but labor issues and supply shortages have driven prices up to an annual inflation rate of over 3% in June 2023. Although the inflation rate is lower than the previous two years, it is still above the Federal Reserve's target rate. The state of Florida's unemployment rate since February 2020 of 3.3% rose to a high of 14.2% in May 2020, lowered to 5.1% in August 2021 and has returned to a pre-pandemic level of 2.7% in August 2023.

Florida continues to be attractive for individuals relocating from other areas of the country with the state having two of the ten fastest growing metropolitan areas in the nation, Jacksonville and Orlando. The Northeast Florida and Southeast Georgia population is now estimated to exceed 1.9 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 through 2020. However, shortages of labor and construction materials have impacted the construction industry and home prices have increased dramatically along with increased interest rates. The Federal Reserve held the effective federal funds rate at or below 0.10% through April 2020, but has since aggressively increased the federal funds rate to 5.5% 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 2023, the state of Florida had an estimated 2.8 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 5.5 million eligible Medicaid enrollees as of June 2023 with 77% participating in a managed care arrangement. The Northeast Florida area (Region 4) had a total of 541,000 eligible Medicaid enrollees representing just under 10% of the state total. Close to 80% of the Northeast Florida Medicaid enrollees participate in a managed care arrangement. In the short term, it is expected that the state of Florida will continue the Medicaid managed care arrangement as opposed to Medicaid expansion.

Associated with the Medicaid program, the Upper Payment Limit (UPL) or Physicians Supplement Payment program continued this year with the academic centers paid a preset capitation based on the entire Medicaid membership in their region. For fiscal year 2023, as with fiscal year 2022, 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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

exists as evidenced by previous attempts to change the methodology such as the proposed Medicaid Fiscal Accountability Rule (MFAR) 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 it at a later time. However, payment distributions have been significantly delayed the past two years impacting cash flow of the Florida medical schools. For LIP, uncertainty previously existed for the term of the program beyond 2022, but 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 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 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, orthopedics, urology and dentistry services. Financing for the Wildlight facility was provided through a bank-held tax-exempt bond at a variable rate. A fixed rate swap agreement was entered at the completion of construction at a rate of 2.27%, before fees. The current variable SOFR rate is 4.8%, a savings of 2.5%. 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 by UFJP 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 and two other primary care clinics were closed in 2022.

In December 2022, UFJP finalized construction of a multi service clinic on the second floor of a partially owned facility at JTB/Kernan Boulevard (UF Health East) which also contains a first floor ambulatory surgery center. The second floor construction was funded with UFJP operating cash, as well as, the purchase of MRI and surgery center equipment. Another clinic space was leased in the Deerwood Park area and the clinical operations at the Emerson Medical Plaza were relocated to the two new clinic spaces at UF Health East and Deerwood Park. The new clinics are in the southside area of Jacksonville and has more convenient access and a higher level of insured residents. University of Florida surgeons can operate at the new ambulatory surgery center and utilize the onsite MRI imaging services. In March 2023, Shands Jacksonville opened a new free standing emergency department facility in conjunction with a third party management company. Another two facilities were opened in April 2023 and University of Florida physicians staff the free standing emergency departments. Shands Jacksonville began construction of a second bed tower on the North Campus containing 124 beds with completion estimated to be the beginning of 2024.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

The local healthcare market remains very competitive in Northeast Florida with five major health systems including UF Health. This is a large number of major health systems for a market of Jacksonville's size. 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 UF Health campus on the Northside, the Wildlight medical services and hospital ancillary services buildings in Nassau County, the new free-standing emergency departments, and the new southside facilities - UF Health East and Deerwood Park. Also, UFJP significantly increased the number and type of telemedicine visits during the pandemic and has continued to provide this service delivery model even with patients shifting back to in person clinic visits. In September 2023, UF Health announced the completion of Flagler Health+ joining UF Health to include Flagler Hospital in St. Augustine, Fl. and a new health campus under development in northern St. Johns county.

Reimbursement for healthcare services continues to change with different reimbursement models from governmental and commercial payers based on performance. The first year of measurement for MACRA, the Medicare Access and CHIP Reauthorization Act was in calendar year 2017 and its resulting changes in reimbursement under the Merit-based Incentive Program System (MIPS) was effective for calendar year 2019. Under the MIPS structure for Medicare, providers are rated based on service-value criteria and good performers are granted increases in rates and underperformers have rate decreases. UFJP has been consistently ranked as a good performer under the MIPS structure. The Physician Quality Reporting System (PQRS) and Meaningful Use programs for Medicare were merged along with the Value Based Modifier program into MACRA. These "Pay for Performance Programs" have been significant for UFJP with over \$46 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. In June 2023, UF Health applied for two Accountable Care Organizations (ACO), one each for the Jacksonville and Gainesville physician groups, to participate in the Medicare Shared Savings Program (MSSP) and further enhance value-based reimbursement. Lastly, qualifying criteria and rates for telemedicine continue to be evaluated based on demand and utilization.

The UF Health enterprise remains dedicated to remaining current and utilizing features of constantly evolving health information systems. 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 hospitals prior to 2012. Additional modules were then implemented including population health management, online patient portal and medical records, integrated eligibility and enrollment, automated patient refunds and integrated lab orders and results. More recently in 2020 and 2021, applications implemented included Real Time Eligibility (RTE), CareSelect Imaging, COVID-19 enhancements and EPIC Welcome self-service kiosks. Credit card integration to post copays and self-pay balances automatically to the patient's account and EPIC Single Business Office (SBO) combining the patient's balances for the physician and the hospital services to one statement were also implemented.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Management's Discussion and Analysis - Continued

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

In 2023, in addition to completing the set up for the new clinics (UF Health East and Deerwood) and the free-standing emergency departments, several other items were implemented during the year. The combined (hospital and physician) good-faith estimates in accordance with the CMS No-Surprise Act was completed, as well as, the automation of insurance refunds between the Epic billing system and the disbursements application – patient refunds were automated in 2019. Also completed was the billing process for providers replying to patients' questions in MyChart that meet certain consent and clinical judgement requirements.

Future Enhancements in EPIC are planned to include continued referral centralization and establishment of rural health clinic billing. LUMA is planned to be implemented to replace an existing application to provide patients with text reminders, appointment requests, no-contact arrival and referral automation. Lastly, the first payroll with the new human resources and payroll Peoplesoft application was completed in September 2023.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

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

Financial Statements

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Net Position

	<i>June 30,</i>	
	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 20,880,567	\$ 42,665,930
Patient accounts receivable, net of estimated uncollectibles and contractual adjustments of \$51,868,573 in 2023 and \$47,310,541 in 2022	14,927,323	15,075,672
Current portion of lease receivables	132,477	125,532
Other receivables	50,359,069	43,200,326
Prepaid expenses and other current assets	2,125,481	2,173,791
Due from Shands Jacksonville Medical Center, Inc.	7,315,220	5,698,897
Due from Faculty Clinic, Inc.	78,472	63,654
TOTAL CURRENT ASSETS	95,818,609	109,003,802
NON-CURRENT ASSETS:		
Estimated fair value of interest rate swap	1,352,109	97,284
Lease receivables, less current portion	505,170	637,951
TOTAL NON-CURRENT ASSETS	1,857,279	735,235
CAPITAL ASSETS:		
Land	3,748,493	3,748,493
Building	31,507,281	23,408,791
Equipment	39,136,005	36,094,937
Computer software	15,873,445	15,863,033
Leasehold improvements	18,700,594	18,655,419
Construction in progress	6,155,290	4,688,629
Right-of-use lease assets	61,962,604	59,070,001
Right-of-use subscription assets	336,027	-
TOTAL CAPITAL ASSETS	177,419,739	161,529,303
Accumulated depreciation and amortization	(79,432,519)	(68,297,221)
TOTAL CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	97,987,220	93,232,082
TOTAL ASSETS	\$ 195,663,108	\$ 202,971,119

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Net Position - Continued

	<i>June 30,</i>	
	2023	2022
LIABILITIES		
CURRENT LIABILITIES:		
Due to University of Florida	\$ 2,571,025	\$ 937,712
Due to Shands Jacksonville Medical Center, Inc.	506,901	8,166
Due to Shands at the University of Florida, Inc.	604,145	246,517
Accounts payable	21,358,195	18,707,516
Accrued compensation and benefits	14,321,127	20,913,035
Accrued interest	114,679	124,261
Third-party advanced payments	-	66,004
Current portion of long-term debt	2,000,000	1,000,000
Current portion of lease liabilities	7,059,304	7,739,568
Current portion of subscription liabilities	103,487	-
TOTAL CURRENT LIABILITIES	48,638,863	49,742,779
OTHER LIABILITIES:		
Long-term debt, less current portion	24,345,000	25,345,000
Lease liabilities, less current portion	40,195,574	44,043,975
Subscription liabilities, less current portion	168,399	-
TOTAL LIABILITIES	113,347,836	119,131,754
DEFERRED INFLOW OF RESOURCES		
Deferred lease revenue	591,217	726,588
TOTAL DEFERRED INFLOW OF RESOURCES	591,217	726,588
COMMITMENTS AND CONTINGENCIES -		
Note L		
NET POSITION:		
Net investment in capital assets	24,115,456	15,103,539
Unrestricted	57,608,599	68,009,238
TOTAL NET POSITION	81,724,055	83,112,777
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 195,663,108	\$ 202,971,119

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Revenue, Expenses, and Changes in Net Position

	<i>Year Ended June 30,</i>	
	<i>2023</i>	<i>2022</i>
OPERATING REVENUE:		
Patient service revenue, net of contractual allowance	\$ 338,886,612	\$ 323,105,927
Provision for bad debts	(43,217,142)	(40,130,069)
Net patient service revenue	295,669,470	282,975,858
Other revenue	10,288,269	1,133,257
Charity care settlement	8,291,321	7,325,896
Contributions from Shands Jacksonville Medical Center, Inc.	45,114,848	45,031,075
Lease interest income	23,344	23,561
Management and other fees	32,004	36,000
TOTAL OPERATING REVENUE	359,419,256	336,525,647
OPERATING EXPENSES:		
Salaries and benefits	125,188,541	121,922,907
Other operating expenses	52,560,194	43,653,531
Dean's Fund	6,069,739	6,517,629
Program support accounts	1,078,177	875,811
TOTAL OPERATING EXPENSES	184,896,651	172,969,878
OPERATING INCOME	174,522,605	163,555,769
NONOPERATING REVENUE (EXPENSES):		
Interest expense	(909,419)	(833,005)
Lease and subscription interest expense	(1,442,615)	(1,569,049)
Investment gain (loss)	897,978	(443,088)
Loss on disposal of capital assets	(21,202)	(91,835)
Change in mark-to-market of interest rate swap	1,254,825	3,276,814
Gain on sale of membership interest	-	7,179,511
NET NONOPERATING EXPENSE	(220,433)	7,519,348
INCREASE IN NET POSITION BEFORE TRANSFERS	174,302,172	171,075,117
TRANSFERS:		
Transfers to the University of Florida, College of Medicine	(175,690,894)	(169,829,520)
INCREASE (DECREASE) IN NET POSITION	(1,388,722)	1,245,597
NET POSITION, BEGINNING OF YEAR	83,112,777	81,867,180
NET POSITION, END OF YEAR	\$ 81,724,055	\$ 83,112,777

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on behalf of patients	\$ 289,462,480	\$ 295,998,023
Receipts from other revenue	9,418,861	2,912,689
Receipts from charity care settlement	8,291,321	7,325,896
Receipts from affiliates	45,973,383	40,147,974
Other receipts	55,348	59,561
Payments to and on behalf of employees	(131,780,449)	(122,170,593)
Payments for operating expenses	(35,954,707)	(20,579,198)
Payments to Dean's Fund	(6,069,739)	(6,517,629)
Payments to program support accounts	(1,078,177)	(875,811)
NET CASH PROVIDED BY OPERATING ACTIVITIES	178,318,321	196,300,912
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments to the University of Florida, College of Medicine	(175,690,894)	(169,829,520)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(175,690,894)	(169,829,520)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(15,286,128)	(7,668,249)
Proceeds from sales of capital assets	-	29,585
Principal payments on lease liabilities	(7,663,071)	(7,286,458)
Principal payments on long-term debt	-	(980,000)
Repayment of line of credit	-	(10,000,000)
Interest paid - lease and subscription liabilities	(1,442,615)	(1,569,049)
Interest paid - debt	(909,419)	(833,005)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(25,301,233)	(28,307,176)

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Statements of Cash Flows - Continued

	<i>Year Ended June 30,</i>	
	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and other costs	888,443	(479,983)
Proceeds from sale of membership interest	-	7,179,511
NET CASH PROVIDED BY INVESTING ACTIVITIES	888,443	6,699,528
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(21,785,363)	4,863,744
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	42,665,930	37,802,186
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 20,880,567	\$ 42,665,930
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 174,522,605	\$ 163,555,769
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	13,842,631	14,081,416
Provision for bad debts	43,217,142	40,130,069
Increase (decrease) in cash due to change in:		
Patient accounts receivable, net	(43,068,793)	(42,010,821)
Other receivables	(7,158,743)	20,036,689
Prepaid expenses and other current assets	48,310	118,593
Due to/from Shands Jacksonville Medical Center, Inc., net	(759,960)	(5,352,720)
Due to/from Faculty Clinic, Inc., net	(14,818)	(649)
Due to University of Florida	1,633,313	470,268
Accounts payable	2,714,546	8,874,324
Accrued compensation and benefits	(6,591,908)	(247,686)
Third-party advanced payments	(66,004)	(3,354,340)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 178,318,321	\$ 196,300,912
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING		
Capital asset additions in accounts payable	\$ 127,087	\$ 200,536

See accompanying notes to financial statements.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 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 statements of revenue, expenses, and changes in net position. The COM may, from time-to-time, be contractually obligated to provide for physician bonus compensation. The Company may be requested to transfer funds to satisfy the COM's bonus obligations. The Company accounts for such transfers as these transfers are required. As of June 30, 2023, the Company supports the University's operation of clinics in Duval County, Florida, and surrounding counties, and South Georgia in furtherance of its purposes as an approved health services support organization to the University under Florida Board of Governors' Regulation 9.011.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 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 associated 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 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 statements of revenue, expenses, and changes in net position. Maintenance and repair costs are expensed as incurred. The Company periodically reviews capital assets for indicators of potential impairment. If this review indicates that the carrying amount of these assets may not be recoverable, the Company estimates the future cash flows expected to result from the operations of the asset and its eventual disposition. If the sum of these future cash flows (undiscounted and

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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

Lease Liabilities and Right-of-Use Lease Assets: 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. A right-of-use asset is also recorded equal to the lease liability plus any initial direct costs, prepayments, or incentives.

Subscription Liabilities and Right-of-Use Subscription Assets: The present value of agreement payments is recorded as a subscription 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 agreement 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. A right-of-use asset is also recorded equal to the subscription liability plus any implementation costs, prepayments, or incentives.

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 \$6,081,528 and \$5,900,131 at June 30, 2023 and 2022, respectively.

Net Position: Net position of the Company is classified in components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and amortization reduced by the remaining balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted* is the remaining net position that does not meet the definition of *net investment in capital assets*. The Company had no restricted net position at June 30, 2023 and 2022.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

Operating Revenue and Expenses: The Company's statements 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 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, 2023 and 2022, management does not believe the Company holds any uncertain tax positions. Tax returns for the years ended June 30, 2020 through 2023 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 May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which requires balance sheet recognition of a subscription liability and right-to-use subscription asset for substantially all SBITAs with a maximum possible term exceeding 12 months. The subscription liability is initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the entity, which may be implicit, or the entity's incremental borrowing rate if the interest rate is not readily determinable. An entity should recognize amortization of the discount on the subscription liability as an outflow of resources (interest expense) for the period. The subscription asset should be initially measured as the sum of the initial subscription liability amount, payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. An entity should recognize amortization of the subscription asset as an outflow of resources over the subscription term. The Company has adopted the Statement in the basic financial statements effective July 1, 2022. Due to the insignificant amount of SBITAs existing as of and for the years ended June 30, 2022, the Company elected to not restate the prior period presented.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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

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

	<i>Year Ended June 30,</i>	
	<i>2023</i>	<i>2022</i>
Gross direct patient service charges	\$ 710,486,253	\$ 692,063,890
Indirect patient service revenue	23,467,285	20,916,006
	<u>733,953,538</u>	<u>712,979,896</u>
Less: Estimated contractual adjustments	(395,066,926)	(389,873,969)
Estimated uncollectible accounts	(43,217,142)	(40,130,069)
	<u>(438,284,068)</u>	<u>(430,004,038)</u>
Net patient service revenue	<u>\$ 295,669,470</u>	<u>\$ 282,975,858</u>

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

	<i>Year Ended June 30,</i>	
	<i>2023</i>	<i>2022</i>
Third party payers	\$ 292,379,123	\$ 279,695,761
Patients responsibility, including self insured	46,507,489	43,410,166
	<u>\$ 338,886,612</u>	<u>\$ 323,105,927</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.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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

Medicaid Physician Upper Payment Limit (UPL) Program: 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 the years ended June 30, 2023 and 2022 includes \$43,625,183 and \$39,999,396, respectively, related to the Medicaid UPL Program. Other receivables at June 30, 2023 and 2022, includes \$42,413,397 and \$36,124,062, respectively, in expected future payments under the Medicaid UPL Program. The future of the Medicaid UPL Program is uncertain. If this program were discontinued or modified, the impact on the Company could be significant.

Low Income Pool (LIP): UFJP receives funding under the LIP program, which is a federal matching program that provides federal funds to Florida health care providers to cover costs for the state's most vulnerable patients. Medical school physician practices are eligible under this program. Net patient service revenue for the years ended June 30, 2023 and 2022, includes \$16,822,071 and \$20,158,764, respectively, related to this program.

Funding for the UPL and LIP programs come from intergovernmental transfers (IGT) and federal matching funds. IGTs are transfers of funds to the Agency for Health Care Administration from 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.

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 are summarized as follows:

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Patient accounts receivable based on established charges	\$ 66,795,896	\$ 62,386,213
Estimated reserve for contractual allowances and uncollectible accounts	(51,868,573)	(47,310,541)
Patient accounts receivable, net	<u>\$ 14,927,323</u>	<u>\$ 15,075,672</u>

Net patient accounts receivable consist of the following:

	<u>2023</u>	<u>2022</u>
Insurance carriers under commercial plans	\$ 4,346,557	\$ 4,447,234
Managed care plans	3,273,937	2,719,051
Medicare	2,576,443	2,368,926
Medicaid	1,618,484	1,542,539
Patients, including self insured	2,294,356	3,292,270
Other	817,546	705,652
	<u>\$ 14,927,323</u>	<u>\$ 15,075,672</u>

The activity relating to the estimated allowance for contractual adjustments and uncollectible accounts for the years ended June 30, 2023 and 2022 is summarized as follows:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 47,310,541	\$ 49,407,725
Provision for bad debts	43,217,142	40,130,069
Charge-offs	(38,659,110)	(42,227,253)
Ending balance	<u>\$ 51,868,573</u>	<u>\$ 47,310,541</u>

The Company's estimated allowance for contractual adjustments and uncollectible accounts increased from the prior year due to increased provision during the year ended June 30, 2023.

NOTE D--BOARD DESIGNATED FUNDS

Program Support Accounts and Dean's Fund: The Program Support Accounts and Dean's Fund as reflected in the statements of revenue, expenses, and changes in net position were designated through the Company bylaws to account for expenditures of grant revenue and other internally allocated funds. Program Support Accounts are internally designated for the furtherance of departmental programs and the attendance of professional meetings. Research grants are maintained at the University of Florida, Gainesville Campus. Grant funds and distributions to the COM-Jacksonville from these grants maintained in Gainesville are used to defray salaries and benefits and expenses associated with grant activity. Amounts designated for the Dean's Fund are used as determined by the Dean, College of

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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 the years ended June 30, 2023 and 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 \$32,004 and \$36,000 for the years ended June 30, 2023 and 2022, respectively. This amount is included in management and other fees in the accompanying statements of revenue, expenses, and changes in net position.

The Company had a receivable from Faculty Clinic of \$78,472 and \$63,654 at June 30, 2023 and 2022, respectively.

Shands Jacksonville: The University and the Company have entered into numerous annual agreements with Shands Jacksonville. At June 30, 2023 and 2022, the Company had a receivable from Shands Jacksonville of \$7,315,220 and \$5,698,897, respectively, and a payable to Shands Jacksonville of \$506,901 and \$8,166, respectively. The Company funds non-physician salaries for employees of Shands Jacksonville who provide support for COM faculty physicians. The amount paid to Shands Jacksonville for such non-physician salaries was \$8,488,278 and \$6,499,998 in 2023 and 2022, respectively. Shands Jacksonville funds various support services for the University including the medical directorships, trauma program, administrative support and new program development in urology, orthopedics and other areas. Total contributions from Shands Jacksonville for the years ended June 30, 2023 and 2022 were \$44,887,663 and \$44,061,691, respectively. Such amounts are included in Contributions from Shands Jacksonville Medical Center, Inc. in the accompanying statements of revenue, expenses, and changes in net position.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

Because there is a teaching program for the COM on the Jacksonville campus, the Company receives various levels of funding from Shands Jacksonville for four Shands Jacksonville primary care clinics, which are operated by the Company. The Company is required to contribute funds to Shands Jacksonville when these clinics generate profits. For the years ended June 30, 2023 and 2022, the Company received \$227,185 and \$969,384, respectively, from Shands Jacksonville related to the operation of clinics. Such amounts are included in Contributions from Shands Jacksonville Medical Center, Inc. in the accompanying statements of revenue, expenses, and changes in net position.

The Company pays for space leased by the University from Shands Jacksonville under various leases (see Note H). Lease payments under these leases were \$1,814,418 and \$1,507,899 in 2023 and 2022, respectively.

Shands at the University of Florida, Inc. (Shands at UF): The Company and 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, 2023 and 2022, the Company owed Shands at UF \$604,145 and \$246,517, respectively, related to these costs.

University of Florida Employed Physicians: The Company leases space from several physicians and companies owned by physicians who are employed by the University. Lease payments made to these physicians in 2023 and 2022 was \$92,213 and \$84,977, respectively, and are included in other operating expenses in the accompanying statements of revenue, expenses, and changes in net position.

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

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

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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, 2023 and 2022 were \$1,117,328 and \$1,065,991, respectively. Premiums paid to HEIC for the years ended June 30, 2023 and 2022 were \$509,598 and \$526,965, respectively. \$341,061 was due to the Self-Insurance Program at June 30, 2023. No amounts were due to the HEIC at June 30, 2023, and 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.

NOTE F--CAPITAL ASSETS

Capital asset activity, excluding lease assets, is as follows:

	<i>Balance at July 1, 2022</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2023</i>
Property and equipment:					
Land	\$ 3,748,493	\$ -	\$ -	\$ -	\$ 3,748,493
Building	23,408,791	195,216	-	7,903,274	31,507,281
Equipment	36,094,937	2,688,417	(415,485)	768,136	39,136,005
Computer software	15,863,033	26,380	(15,968)	-	15,873,445
Leasehold improvements	18,655,419	716,137	(2,119,420)	1,448,458	18,700,594
Construction in progress	4,688,629	11,586,529	-	(10,119,868)	6,155,290
Total property and equipment	102,459,302	15,212,679	(2,550,873)	-	115,121,108
Accumulated depreciation:					
Building	3,708,586	927,729	-	-	4,636,315
Equipment	27,014,360	3,601,693	(413,018)	-	30,203,035
Computer software	15,434,601	175,305	(15,968)	-	15,593,938
Leasehold improvements	13,721,707	786,885	(2,099,254)	-	12,409,338
Total accumulated depreciation	59,879,254	5,491,612	(2,528,240)	-	62,842,626
Property and equipment, net	\$ 42,580,048	\$ 9,721,067	\$ (22,633)	\$ -	\$ 52,278,482

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

	<i>Balance at July 1, 2021</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2022</i>
Property and equipment:					
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 property and equipment	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
Property and equipment, net	\$ 40,650,753	\$ 2,050,715	\$ (121,420)	\$ -	\$ 42,580,048

Right-of-use lease assets activity is as follows:

	<i>Balance at July 1, 2022</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2023</i>
Right-of-use lease assets:					
Equipment	\$ 521,991	\$ -	\$ -	\$ -	\$ 521,991
Building	58,548,010	3,600,173	(707,570)	-	61,440,613
Total right-of-use lease assets	59,070,001	3,600,173	(707,570)	-	61,962,604
Accumulated amortization:					
Equipment	154,444	131,232	-	-	285,676
Building	8,263,523	8,153,983	(179,093)	-	16,238,413
Total accumulated amortization	8,417,967	8,285,215	(179,093)	-	16,524,089
Total right-of-use lease assets, net	\$ 50,652,034	\$ (4,685,042)	\$ (528,477)	\$ -	\$ 45,438,515

	<i>Balance at July 1, 2022</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2023</i>
Right-of-use lease assets:					
Equipment	\$ -	\$ 521,991	\$ -	\$ -	\$ 521,991
Building	-	58,548,010	-	-	58,548,010
Total right-of-use lease assets	-	59,070,001	-	-	59,070,001

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

	<i>Balance at July 1, 2022</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2023</i>
Accumulated amortization:					
Equipment	-	154,444	-	-	154,444
Building	-	8,263,523	-	-	8,263,523
Total accumulated amortization	-	8,417,967	-	-	8,417,967
Total right-of-use lease assets, net	\$ -	\$ 50,652,034	\$ -	\$ -	\$ 50,652,034

Estimated costs to complete construction in progress at June 30, 2023 was approximately \$3,117,000 and relates to a new medical building, facility renovations and related projects.

The Company 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 asset 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.

A summary of right-of-use subscription assets and schedule of activity is as follows:

	<i>Balance at June 30, 2022</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2023</i>
Righ-of-use subscription assets:					
Subscription assets	\$ -	\$ 336,027	\$ -	\$ -	\$ 336,027
Total right-of-use subscription assets	-	336,027	-	-	336,027
Accumulated amortization:					
Subscription assets	-	65,804	-	-	65,804
Total accumulated amortization	-	65,804	-	-	65,804
Total right-of-use subscription assets, net	\$ -	\$ 270,223	\$ -	\$ -	\$ 270,223

The Company has recorded right-of-use subscription assets as a result of implementing GASB Statement No. 96. The right-of-use subscription assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any payments made prior to the agreement term, less any incentives, plus any implementation costs that can be capitalized. The right-of-use subscription assets are amortized on a straight-line basis over the life of the related agreement. Further discussion regarding the related subscription liabilities can be found in Note H.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

NOTE G--LONG-TERM DEBT

Activity in long-term debt for the years ended June 30, 2023 and 2022, are as follows:

	<i>Balance at July 1, 2022</i>	<i>Issuances</i>	<i>Retirements</i>	<i>Balance at June 30, 2023</i>	<i>Amounts Due Within One Year</i>
Notes from direct borrowings:					
Healthcare Facilities Revenue					
Note, Series 2019B	\$ 26,345,000	\$ -	\$ -	\$ 26,345,000	\$ 2,000,000
Total Long-Term Debt	<u>\$ 26,345,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,345,000</u>	<u>\$ 2,000,000</u>
	<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 2019B Note. The Series 2019B Note requires a monthly interest payment based on a variable rate of 81% of the Adjusted one-month LIBOR Rate. During May 2023, this agreement was amended and restated to replace the variable rate referenced from LIBOR-BBA to SOFR-CME plus 11 basis points. All other terms and conditions remain substantially unchanged. The variable rate was 4.83% and 1.50% for the Series 2019B Note at June 30, 2023 and 2022, respectively. The Series 2019A Note matured June 1, 2022. The Series 2019B Note matures April 1, 2044, with annual principal

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

payments beginning June 1, 2023. The Series 2019B Note contains a mandatory tender where the Company agrees to purchase the Series 2019B Note on the noteholder put date of April 17, 2034 or April 17, 2039 for an amount equal to 100% of the outstanding principal unless notified 120 days in advance by the Noteholder.

The Company has a revolving line of credit with a bank in the amount of \$10,000,000. The line of credit was renewed during 2023 and now has an expiration date of February 1, 2025. There were no amounts outstanding on this line of credit as of June 30, 2023 and 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 1.0 and a liquidity ratio no less than 0.15. The Company was in compliance with these restrictive financial covenants at June 30, 2023 and 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, 2023 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>
2024	\$ 2,000,000	\$ 1,223,641	\$ 3,223,641
2025	1,000,000	1,175,362	2,175,362
2026	1,000,000	1,127,083	2,127,083
2027	1,100,000	1,078,803	2,178,803
2028	1,100,000	1,025,696	2,125,696
2029-2033	5,800,000	4,317,385	10,117,385
2034-2038	6,400,000	2,854,520	9,254,520
2039-2043	6,550,000	1,290,267	7,840,267
2044	1,395,000	67,350	1,462,350
	<u>\$ 26,345,000</u>	<u>\$ 14,160,107</u>	<u>\$ 40,505,107</u>

NOTE H--LEASE AND SUBSCRIPTION LIABILITIES

The Company 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

Years Ended June 30, 2023 and 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</i>				<i>Balance at</i>		<i>Amount Due</i>
	<i>June 30, 2022</i>	<i>Additions</i>	<i>Reductions</i>	<i>Terminations</i>	<i>June 30, 2022</i>		<i>Within One</i>
							<i>Year</i>
Lease equipment	\$ 371,919	\$ -	\$ 129,362	\$ -	\$ 242,557	\$	104,153
Lease buildings	51,411,624	3,600,173	7,469,568	(529,908)	47,012,321	\$	6,955,150
Total lease liabilities	\$ 51,783,543	\$ 3,600,173	\$ 7,598,930	\$ (529,908)	\$ 47,254,878	\$	7,059,304

	<i>Balance at</i>				<i>Balance at</i>		<i>Amount Due</i>
	<i>July 1, 2021</i>	<i>Additions</i>	<i>Reductions</i>	<i>Terminations</i>	<i>June 30, 2022</i>		<i>Within One</i>
							<i>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 Company leases equipment and property under lease agreements which expire at various dates. Future minimum lease payments under leases are as follows:

<i>Year Ending</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
<i>June 30,</i>	<i>Payments</i>	<i>Payments</i>	
2024	\$ 7,059,304	\$ 1,273,730	\$ 8,333,034
2025	5,520,145	1,092,836	6,612,981
2026	5,345,611	936,333	6,281,944
2027	5,297,784	782,485	6,080,269
2028	5,064,549	628,139	5,692,688
2029-2033	15,165,379	1,524,703	16,690,082
2034-2038	3,305,430	166,482	3,471,912
2039-2043	277,264	52,736	330,000
2044-2047	219,412	11,588	231,000
	<u>\$ 47,254,878</u>	<u>\$ 6,469,032</u>	<u>\$ 53,723,910</u>

The Company has entered into certain SBITAs. The agreements qualify as other than short-term under GASB Statement No. 96 and, therefore, have been recorded at the present value of the future minimum payments as of the date of their inception.

There are no variable payment components for any agreement. Each subscription liability addition during 2023 was measured at a 2.90% discount rate. The associated right-of-use subscription asset is discussed in more detail in Note F.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

The Company has subscription liabilities that expire at various dates. Future minimum agreement payments under the subscription liabilities are as follows:

<i>Year Ending June 30,</i>	<i>Principal Payments</i>	<i>Interest Payments</i>	<i>Total</i>
2024	\$ 103,487	\$ 6,156	\$ 109,643
2025	117,851	3,115	120,966
2026	50,548	389	50,937
	<u>\$ 271,886</u>	<u>\$ 9,660</u>	<u>\$ 281,546</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, 2023 and 2022, UFJP recognized \$135,371 of lease revenue with \$23,344 and \$23,561 of interest revenue, respectively.

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 \$25,345,000 and \$26,345,000 at June 30, 2023 and 2022, respectively. The Company also paid a loan spread fee of 81% of 79 basis points, on the notional amount outstanding at the effective date of February 3, 2020. This agreement terminates April 1, 2034 unless terminated at an earlier date. During May 2023, this agreement was amended and restated to replace the variable rate referenced from LIBOR-BBA to SOFR-CME plus 11 basis points. All other terms and conditions remain substantially unchanged.

Although the swap instrument is intended to manage exposure to interest rate risks associated with the debt instruments referred to above, the swap agreement has not been determined to be an effective hedge. Accordingly, the interest rate swap is reflected in the accompanying statements of net position at its aggregate fair value (an asset of \$1,352,109 and \$97,284 at June 30, 2023 and 2022, respectively) and the change in the value of the swap is reflected as a component of nonoperating revenue in the statements of revenue, expenses, and changes in net position for the years ended June 30, 2023 and 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.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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 statements of revenue, expenses, and changes in net position for the year ended June 30, 2023 as the Company's contributions to the Plan are encompassed under the Company's required funding of the University's Fringe Benefit Pool.

In addition, several UF physicians are participants in a defined benefit plan through the State of Florida's Optional Retirement Plan. For the years ended June 30, 2023 and 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, 2023. Full vesting of the Company contributions occurs after five years of service. Retirement plan expense for the Company for this retirement plan was \$2,055,553 and \$2,041,339 for the years ended June 30, 2023 and 2022, respectively.

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.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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. 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, \$3,354,340 in 2022, and the remaining \$66,004 in 2023.

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 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 2023 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 \$17,686,000 and \$18,893,000 in 2023 and 2022, respectively, at the Company's established rates. Charges foregone related to other charity patients was approximately \$17,819,000 and \$20,744,000 in 2023 and 2022, respectively. The estimated direct and indirect cost of providing these services totaled approximately \$17,033,000 and \$18,566,000 in 2023 and 2022, respectively.

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.

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

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

principal market, or most advantageous market in the absence of a principal market, and the market participants are acting in their economic best interests. GASB Statement No. 72 requires an entity to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques should be applied consistently and maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

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

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

At June 30, 2023 and 2022, the Company had no liabilities meeting the criteria for disclosure.

The following table presents assets reported at fair value as of June 30, 2023 and 2022, and their respective classification under the GASB Statement No. 72 valuation hierarchy:

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2023:

	<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	\$ 1,352,109	\$ -	\$ -	\$ 1,352,109

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

Assets 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.

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, 2023 financial statements with the exception of that noted below.

In September 2023, the Company initiated a draw on the line of credit of approximately \$8,800,000 and also entered into a \$10,000,000 short-term loan arrangement with Shands at UF. This funding was utilized to pay IGT payments for the UPL program (see Note C). The Company intends to repay these amounts once UPL funding is received.

Other Information

UNIVERSITY OF FLORIDA JACKSONVILLE PHYSICIANS, INC.

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

	<i>Year Ended June 30,</i>	
	<i>2023</i>	<i>2022</i>
REVENUE	\$ -	\$ -
EXPENDITURES:		
Salaries and benefits	174,160,787	164,847,436
Other operating expenses	1,922,191	1,550,670
Total expenditures	176,082,978	166,398,106
EXPENDITURES IN EXCESS OF REVENUE BEFORE TRANSFERS	(176,082,978)	(166,398,106)
TRANSFERS:		
From University of Florida Jacksonville Physicians, Inc.	175,690,894	169,829,520
EXCESS (DEFICIT) OF REVENUE AND TRANSFERS OVER EXPENDITURES	(392,084)	3,431,414
NET DEFICIENCY, BEGINNING OF YEAR	(10,675,404)	(14,106,818)
NET DEFICIENCY, END OF YEAR	\$ (11,067,488)	\$ (10,675,404)

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, 2023, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated September 25, 2023.

Report on 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.

Report on 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 25, 2023