



Financial Statements

UCF Academic Health, Inc.

Year Ended June 30, 2022

UCF ACADEMIC HEALTH, INC.

Table of Contents

Year Ended June 30, 2022

Independent Auditor’s Report.....1

Management’s Discussion and Analysis4

Financial Statements

Statement of Net Position9

Statement of Revenue, Expenses and Changes in Net Position.....10

Statement of Cash Flows11

Notes to Financial Statements.....12

Other Information

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.....17



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
UCF Academic Health, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UCF Academic Health, Inc. (UCFAH), a component unit of the University of Central Florida, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise UCFAH'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 UCF Academic Health, Inc. as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

UCFAH'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 UCFAH's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UCFAH'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 UCFAH'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 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2022 on our consideration of UCFAH'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 UCFAH's internal control over financial reporting and compliance.

PYA, P.C.

Tampa, Florida
August 29, 2022

Management's Discussion and Analysis

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis

INTRODUCTION

This section of UCF Academic Health, Inc.'s (UCFAH) annual report provides an overview of its financial results for the year ended June 30, 2022. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes. The financial statements, footnotes, and this discussion and analysis are the responsibility of management.

The primary purpose of UCFAH is the development of clinical initiatives and affiliated partnerships that will serve the education, research and clinical missions and objectives of the UCF College of Medicine. Currently, UCFAH is engaged in two main activities. One is a joint venture with Hospital Corporation of America (HCA) (Central Florida Health Services, LLC or CFHS) which includes shared governance and 20% equity ownership in the development and operation of UCF Lake Nona Medical Center (UCF LNMC). UCF LNMC has been developed to serve as a teaching hospital.

The second major activity of UCFAH is the development and oversight of lease arrangements with private partners in the UCF Lake Nona Cancer Center (UCF LNCC). This includes lease administration and collection of rental income for UCFAH's designated space in the UCF LNCC. The UCF LNCC, which is owned by the UCF Real Estate Foundation (Foundation) and has a total of 173,476 sq. ft., is leased to the UCF Board of Trustees (UCF). Approximately 80,000 sq. ft. of the building are leased by UCF to UCFAH for sub-sublease to private partner tenants. Rent and common area maintenance (CAM) fees are collected under the UCFAH sub-subleases and are utilized to make rent and CAM payments to UCF and ultimately to the UCF Real Estate Foundation to support the quarterly mortgage payments due for the facility and to support the costs of building operations. All surplus lease revenue is held in reserve for future capital expenditures to properly maintain the building for the tenants. As of June 30, 2022, UCFAH has one short-term tenant and four long-term tenants in the UCF LNCC.

FINANCIAL ANALYSIS

The following is a summary of the financial performance of UCFAH, segregated by the Statement of Net Position, Statement of Revenue, Expenses and Changes in Net Position and Statement of Cash Flows. The year ended June 30, 2022 represents the third year of operational financial activity for UCFAH.

There were two significant accounting events to impact the financial statements in Fiscal Year 2022. The first was the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 87. Due to the significant changes required under GASB Statement No. 87, UCFAH has chosen to present single year financial statements this fiscal year. GASB Statement No. 87 now requires that most leases be treated as capital leases and be presented on the balance sheet. UCFAH is both a lessee and lessor and so this rule has significant impact to the financials. The sub-lease payable to UCF is recorded as a right-to-use asset with a corresponding lease liability that reflects the present value of future payments over the lease term of thirty years. The tenant

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis - Continued

sub-subleases are reflected on the Statement of Net Position as a lease receivable and deferred inflow of resources and is the present value of future lease payments from the tenants to UCFAH. The combined impact of all leases was the recording of \$85 million in assets and corresponding liabilities as of July 1, 2021. This consists of a \$50 million right-to-use asset representing the sub-lease payable to UCF and a \$35 million receivable for the sub-subleases billable to the building tenants. After accumulated amortization and lease revenue for Fiscal Year 2022, the net asset balances are \$48 million and \$34 million, respectively.

The second significant accounting event was the recording of UCFAH's portion of operating losses of the UCF LNMC. UCF LNMC began operations on March 1, 2021 and has incurred losses in its first sixteen months of operations which is to be expected for a startup hospital. These losses were mostly incurred in the first four months of operations and have been steadily improving over the past year. UCFAH's minority interest portion of the loss was recorded at \$1.8 million and is a catch-up entry for both Fiscal Year 2021 and 2022. The Fiscal Year 2021 portion of the loss was not recorded previously as the equity reconciliation had not been completed by CFHS, the joint venture entity that operates the hospital.

STATEMENT OF NET POSITION - ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<i>June 30, 2022</i>
<hr/>	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 616,827
Accounts receivable	12,368
Current portion of lease receivables	798,113
Prepaid expenses other current assets	11,923
	<hr/>
TOTAL CURRENT ASSETS	1,439,231
EQUITY INVESTMENT	13,341,967
OTHER ASSETS	
Lease asset, net	48,333,333
Lease receivables - less current portion	33,167,151
	<hr/>
TOTAL LONG-TERM ASSETS	94,842,451
	<hr/>
TOTAL ASSETS	<u>\$ 96,281,682</u>

Total assets were \$96.3 million at the end of Fiscal Year 2022. Current Assets of \$1.4 million represents the current portion of lease receivables of \$798 thousand as of June 30, 2022, billable to the current tenant/partners at the UCF LNCC and a cash balance of \$617 thousand. The remaining \$24 thousand reflects a receivable balance for lease revenue due, but not yet paid, and some prepaid UCFAH operating expenses. The equity investment of UCFAH in CFHS is \$13.3

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis - Continued

million after accounting for the impact of the minority interest adjustment of \$1.8 million previously described. The implementation of GASB Statement No. 87 resulted in the recording of capital leases under Other Assets of \$81.5 million which represents a net lease asset of \$48.3 million and the long-term portion of lease receivables of \$33.2 million.

	<i>June 30,</i>
	<i>2022</i>
<hr/>	
CURRENT LIABILITIES	
Current portion of lease liability	\$ 2,000,000
Unearned revenue	84,850
Security deposit liability	25,862
Accrued expenses	16,859
	<hr/>
TOTAL CURRENT LIABILITIES	2,127,571
Lease liability - less current portion	45,500,000
	<hr/>
TOTAL LIABILITIES	47,627,571
DEFERRED INFLOWS OF RESOURCES	
Deferred lease revenue	32,885,333
	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	32,885,333

Total liabilities were \$47.6 million at the end of Fiscal Year 2022. Current liabilities of \$2.1 million mainly consist of the current portion of the lease liability paid to UCF of \$2 million. The remaining currently liability of \$128 thousand is related to unearned revenue for lease revenue received in advance from tenants, a security deposit, and a small amount of accrued UCFAH operating expenses. Long term liabilities and deferred inflows of resources are the result of the implementation of GASB Statement No. 87 and reflect the long-term portion of the lease liability paid to UCF of \$45.5 million and the deferred lease revenue of \$32.9 million related to the tenant/partners at the UCF LNCC.

	<i>June 30,</i>
	<i>2022</i>
<hr/>	
NET POSITION:	
Unrestricted	\$ 15,768,778
	<hr/>
TOTAL NET POSITION	\$ 15,768,778
	<hr/>

The total net position of UCFAH at the end of Fiscal Year 2022 is \$15.8 million. Although labeled as unrestricted, \$15.1 million is the cost of the land contribution to CFHS and is designated in its use to the equity investment. The remaining \$632 thousand is the change in net position for Fiscal Year 2022.

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis - Continued

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	<i>Year Ended June 30, 2022</i>
TOTAL OPERATING REVENUE	\$ 3,579,269
TOTAL OPERATING EXPENSES	<u>2,152,447</u>
OPERATING INCOME	<u>1,426,822</u>
NON-OPERATING INCOME	999,989
NON-OPERATING EXPENSES	<u>1,795,033</u>
TOTAL NON-OPERATING EXPENSES	<u>(795,044)</u>
CHANGE IN NET POSITION	631,778
NET POSITION, BEGINNING OF YEAR	<u>15,137,000</u>
NET POSITION, END OF YEAR	<u><u>\$ 15,768,778</u></u>

Total operating expenses were \$2.15 million in Fiscal Year 2022. Operating expenses include lease amortization expense of \$1.67 million and \$431 thousand for CAM expense to cover building maintenance and operations related to the UCF LNCC building. The remaining \$55 thousand includes consulting expense, financial audit expense, the cost of financial software, and insurance expense. Total operating revenue of \$3.58 million less total operating expense of \$2.15 million provides net operating income of \$1.43 million.

Prior to Fiscal Year 2022 and the implementation of GASB Statement No. 87, operating income was reflected as \$0 to represent that all remaining income after direct expenses was due to UCF. With the implementation of GASB Statement No. 87, this liability is already reflected on the balance sheet. The impact of this change is non-operating income of \$1 million.

Non-operating expense of \$1.8 million reflects UCFAH's minority interest portion of the start-up losses incurred by CFHS, the hospital joint venture. Non-operating income of \$1 million less non-operating expense of \$1.8 million nets to a total non-operating expense of \$795 thousand. This combined with \$1.4 million in operating income provides a positive change in net position of \$632 thousand to \$15.8 million for Fiscal Year 2022.

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis - Continued

STATEMENT OF CASH FLOWS

	<i>Year Ended June 30, 2022</i>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,031,864
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,000,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,864
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>584,963</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 616,827</u></u>

Net cash from operating activities was \$2.03 million in Fiscal Year 2022, which consisted of \$2.54 million in cash inflows from tenant leases minus actual payments of CAM to UCF and payments to suppliers totaling \$506 thousand. There was a further decrease in cash of \$2 million for lease payments made to UCF. The result was a small increase in cash for the year of \$32 thousand.

Financial Statements

UCF ACADEMIC HEALTH, INC.***Statement of Net Position***

	<i>June 30, 2022</i>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 616,827
Accounts receivable	12,368
Current portion of lease receivables	798,113
Prepaid expenses other current assets	11,923
TOTAL CURRENT ASSETS	<u>1,439,231</u>
EQUITY INVESTMENT	13,341,967
OTHER ASSETS	
Lease asset, net	48,333,333
Lease receivables - less current portion	33,167,151
TOTAL LONG-TERM ASSETS	<u>94,842,451</u>
TOTAL ASSETS	<u>\$ 96,281,682</u>
CURRENT LIABILITIES	
Current portion of lease liability	\$ 2,000,000
Unearned revenue	84,850
Security deposit liability	25,862
Accrued expenses	16,859
TOTAL CURRENT LIABILITIES	<u>2,127,571</u>
Lease liability - less current portion	45,500,000
TOTAL LIABILITIES	<u>47,627,571</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred lease revenue	32,885,333
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>32,885,333</u>
COMMITMENTS AND CONTINGENCIES - Note G	
NET POSITION:	
Unrestricted	15,768,778
TOTAL NET POSITION	<u>15,768,778</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 96,281,682</u>

UCF ACADEMIC HEALTH, INC.***Statement of Revenue, Expenses and Changes in Net Position***

	<i>Year Ended June 30, 2022</i>
OPERATING REVENUE:	
Commercial lease revenue	\$ 2,445,109
Interest income, net	<u>1,134,160</u>
TOTAL OPERATING REVENUE	<u>3,579,269</u>
OPERATING EXPENSES:	
Facility	430,832
Information technology	2,637
Professional services	40,741
Lease asset amortization	1,666,667
Other	<u>11,570</u>
TOTAL OPERATING EXPENSES	<u>2,152,447</u>
OPERATING INCOME	<u>1,426,822</u>
NON-OPERATING INCOME (EXPENSES):	
Loss on equity investment	(1,795,033)
Other	<u>999,989</u>
TOTAL NON-OPERATING EXPENSES	<u>(795,044)</u>
CHANGE IN NET POSITION	631,778
NET POSITION, BEGINNING OF YEAR	<u>15,137,000</u>
NET POSITION, END OF YEAR	<u>\$ 15,768,778</u>

UCF ACADEMIC HEALTH, INC.***Statement of Cash Flows***

	<i>Year Ended June 30, 2022</i>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from rentals	\$ 2,537,561
Payments to suppliers and for operating expenses	(74,865)
Payments to affiliates	(430,832)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,031,864</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on lease liability	<u>(2,000,000)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>(2,000,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,864
CASH AND CASH EQUIVALENTS, beginning of year	<u>584,963</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 616,827</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 1,426,822
Adjustments to reconcile operating income to net cash provided by operating activities:	
Lease asset amortization	1,666,667
Increase (decrease) in cash due to changes in:	
Accounts receivable	62,214
Lease receivables	725,520
Prepaid expenses other current assets	(11,923)
Unearned revenue	(23,991)
Accrued expenses	(994)
Accounts payable	(7,000)
Deferred lease revenue	(1,805,451)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,031,864</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:	
Lease liabilities arising from obtaining leased assets	<u>\$ 50,000,000</u>
Deferred inflows arising from lease receivables	<u>\$ 34,690,784</u>

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements

Year Ended June 30, 2022

NOTE A--REPORTING ENTITY

UCF Academic Health, Inc. (UCFAH), is a not-for-profit Florida Corporation incorporated June 2016. UCFAH became operational in 2016 including pursuing hospital partnership opportunities, development of Central Florida Health Services (CFHS) and planning for the hospital and medical center; however, it did not have any operating revenue, expenses, or financial deposits until 2019. UCFAH is a University Direct-Support Organization within the definition of Florida Statutes Section 1004.28. UCFAH is organized and operated for the promotion and support of medical education, research, and patient care through the planning and development of clinical initiatives and affiliated partnerships that will serve the education, research and clinical mission and objectives of the University of Central Florida (UCF or the University) College of Medicine.

UCFAH is also organized and operated to receive, hold, invest, and administer property and to make expenditures to or for the benefit of UCF. Furthermore, the corporation is a vehicle UCF and its College of Medicine can use to participate in clinical initiatives in a way that minimizes risk to UCF.

UCFAH entered into an agreement with Hospital Corporation of America (HCA) to create CFHS, which has approximate ownership interests of 20% by UCFAH and 80% by HCA. UCFAH contributed assets consisting of a 25.2-acre land lease, 11-acre land lease option, lien release, transportation impact fee, and other various assets in exchange for equity in CFHS. UCF Lake Nona Medical Center began operations in March 2021.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Reporting: The financial statements of UCFAH are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

In accordance with U.S. GAAP, UCFAH qualifies for treatment as a component unit of the UCF; therefore, UCFAH's financial statements are included in the University's financial statements.

For financial reporting purposes, UCFAH is considered a special-purpose government organization engaged only in business-type activities. Accordingly, UCFAH's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Changes in the net position of UCFAH as a result of support, revenue, expenses, gains, and losses are classified based on the existence of any funding restrictions. Accordingly, the net position of UCFAH and changes therein are classified and reported as follows:

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

- *Unrestricted:* Net position that is not subject to funding restrictions. The unrestricted net position may be designated for specific purposes by action of the Board of Directors.
- *Temporarily Restricted:* Net position whose use by UCFAH is subject to donor-imposed stipulations that can be fulfilled by actions of UCFAH pursuant to those stipulations or that expire by the passage of time. There were none of these donations during the year ended June 30, 2022.

These financial statements are entirely those of UCFAH alone and, accordingly, are not intended to present the financial position or the results of operations of the University.

Cash and Cash Equivalents: UCFAH considers all cash and related short-term investments with original maturities of three months or less to be cash equivalents.

Equity Investment: The equity method is utilized for investments which UCFAH has significant influence. Under the equity method, the investment is recorded at historical cost and increased or decreased by the investor's share of profit or loss (as determined through contractual agreements) and when additional contributions or distributions are made. UCFAH's share of profit or losses is reported as revenue or expense in the accompanying statement of revenue, expenses, and changes in net position.

Operating Revenue and Expenses: UCFAH's statement of revenue, expenses and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare and education services and advancing resources to healthcare professionals. Other sources of revenue, expenses, gains, and losses are reported as nonoperating.

Income Taxes: UCFAH 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 and there were no uncertain tax positions as of June 30, 2022.

Recently Adopted Accounting Pronouncements: In June 2017, GASB issued Statement No. 87, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases with a maximum possible term exceeding 12 months. The lease liability is measured at the present value of payments made during the lease term. In later periods, the lessee should amortize the discount of the lease liability and report it as an outflow of resources (interest expense) for the period. The lease asset is measured as the sum of the amount of the initial measurement of the lease liability, lease payments made to the lessor at/before the beginning of the lease term, and any initial direct costs. A lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset and reported as an amortization expense. UCFAH

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

has adopted the Statement in the basic financial statements as of and for the year ended June 30, 2022.

NOTE C--CASH AND CASH EQUIVALENTS

Custodial Credit Risk: At June 30, 2022, funds of approximately \$617,000 were deposited at a banking institution that is insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000. At June 30, 2022, UCFAH had deposits of approximately \$367,000 in excess of these insurance limits. UCFAH is exposed to loss of uninsured amounts in the event of non-performance by the banking institution; however, management does not anticipate any such losses.

NOTE D--LEASES

UCFAH leases a portion of a medical research building (UCF Lake Nona Cancer Center) from the UCF Board of Trustees. The lease term, including renewal options, is 60 years. The lease agreement calls for quarterly lease payments of \$500,000 for the first 20 years and \$250,000 per quarter for years 21-30. The stated discount rate for the lease is 0.0%. Payments cease after 30 years once total cumulative lease payments equal \$50,000,000.

A summary of the changes in the lease liability during the year ended June 30, 2022 is as follows:

	<i>Balance Beginning of Year</i>	<i>Additions</i>	<i>Remeasurements</i>	<i>Deductions</i>	<i>Balance End of Year</i>	<i>Amounts Due Within One Year</i>
Lease liability	\$ -	\$ 50,000,000	\$ (500,000)	\$ (2,000,000)	\$ 47,500,000	\$ 2,000,000
Total	\$ -	\$ 50,000,000	\$ (500,000)	\$ (2,000,000)	\$ 47,500,000	\$ 2,000,000

Future minimum lease payments for UCFAH are as follows:

<i>Year Ending June 30,</i>	
2023	\$ 2,000,000
2024	2,000,000
2025	2,000,000
2026	2,000,000
2027	2,000,000
2028-2032	10,000,000
2033-2037	10,000,000
2038-2042	9,000,000
2043-2047	5,000,000
2048-2052	3,500,000
	<u>\$ 47,500,000</u>

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

UCFAH subleases the premises to private tenants who conduct clinical care and research activities within the premises. Each sublease has varying terms. Rental income under these sublease agreements totaled approximately \$2,445,000 for the year ended June 30, 2022. Future minimum lease commitments, representing future rental revenues, to UCFAH for all leases are as follows:

<u><i>Year Ending June 30,</i></u>	
2023	\$ 1,912,087
2024	1,971,037
2025	2,031,754
2026	2,082,782
2027	2,153,516
2028-2032	11,776,308
2033-2037	13,651,966
2038-2041	11,237,576
	<u>\$ 46,817,026</u>

A summary of lease asset activity during the year ended June 30, 2022 is as follows:

	<i>Balance Beginning of Year</i>	<i>Additions</i>	<i>Remeasurements</i>	<i>Deductions</i>	<i>Balance End of Year</i>
Lease asset:					
Building	\$ -	\$ 50,000,000	\$ -	\$ -	\$ 50,000,000
Less accumulated amortization:					
Building	-	1,666,667	-	-	1,666,667
Total lease asset, net	<u>\$ -</u>	<u>\$ 48,333,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,333,333</u>

NOTE E--EQUITY INVESTMENT

UCFAH entered into an agreement with HCA to form CFHS for the purpose of constructing and operating a new hospital and medical center facility. The approximate ownership interests of CFHS are 80% by HCA and 20% by UCFAH. The fair value of total contributions by UCFAH was \$52,740,112 of assets for the approximate 20% ownership. This included a 25.2-acre land lease, trade name, 11-acre land lease option, lien release, and transportation impact fee. The contributed assets were recognized at the carrying value at the time of contribution, which is in accordance with GASB standards. The carrying amount and fair value of the contributed assets at the time of contribution were:

	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Difference</i>
Contributed assets	<u>\$ 15,137,000</u>	<u>\$ 52,740,112</u>	<u>\$ (37,603,112)</u>

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2022

The operating agreement for CFHS states that the net profits and losses of CFHS will be allocated based on members sharing percentages and will be determined based on audited financial statements that are to be prepared and distributed to members within 120 days after CFHS's year end, which is December 31. HCA confirmed that pre-opening losses for CFHS were to be considered HCA contributions. UCFAH's equity investment in CFHS was \$13,341,967 as of June 30, 2022. UCFAH reported a loss of \$1,795,033 during the year ended June 30, 2022 related to its allocation of operating losses of CFHS. These losses were anticipated and budgeted for by UCFAH as part of the startup of the new hospital.

NOTE F--RELATED PARTY TRANSACTIONS

UCFAH began making rent payments to the UCF Board of Trustees during 2021. Rent payments are to include all UCFAH sublease income received annually up to \$2,000,000. UCFAH also collects common area maintenance (CAM) payments from its sublease tenants which is included in commercial lease revenue in the statement of revenue, expenses, and changes in net position. All CAM payments are due to the UCF Board of Trustees.

As of June 30, 2022, nothing was due to the UCF Board of Trustees.

NOTE G--COMMITMENTS AND CONTINGENCIES

Liability Insurance: UCFAH is exposed to various risks of loss. Commercial insurance is in place for general liability and for claims against directors and officers.

NOTE H--NATIONAL PANDEMIC

In March 2020, the outbreak of the coronavirus 2019 (COVID-19) was declared a public health emergency (PHE). The COVID-19, PHE has severely restricted economic activity and resulted in volatility in financial markets. The healthcare industry has been impacted due to a general decrease in non-emergent patient volumes, cancellations, and delays of elective medical procedures, as well as COVID-19 related expenses. The Company continues to monitor this volatility and the ultimate outcome of the pandemic on UCFAH is unknown.

NOTE I--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2022 financial statements.

Other Information



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
UCF Academic Health, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of UCF Academic Health, Inc. (UCFAH), which comprise the statement of net position as of June 30, 2022, and the related statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 29, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UCFAH'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 UCFAH's internal control. Accordingly, we do not express an opinion on the effectiveness of UCFAH'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of UCFAH'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UCFAH'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 UCFAH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UCFAH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PYA, P.C.

Tampa, Florida
August 29, 2022