



Financial Statements

UCF Academic Health, Inc.

Years Ended June 30, 2023 and 2022

UCF ACADEMIC HEALTH, INC.

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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 years ended June 30, 2023 and 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, 2023 and 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 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 UCFAH 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

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 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 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 7 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 September 12, 2023 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
September 12, 2023

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, 2023. 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, 2023, UCFAH has two short-term tenants with lease terms three years or less and four long-term tenants with terms expiring between 2030 and 2041 in the UCF LNCC. Both short-term tenants have leases expiring in Fiscal Year 2024 and discussions regarding renewal are currently underway.

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, 2023, represents the fourth year of operational financial activity for UCFAH.

There were two significant accounting events to impact the financial statements in Fiscal Year 2023. First, effective July 1, 2022, the University of Central Florida and its direct support organizations implemented a new enterprise resource planning (ERP) system named Workday, and with that have begun using the same chart of accounts across all UCF entities. This has increased efficiency in recording intercompany transactions and in the automation of cash transfers between bank accounts. Also, with this new chart of accounts, sales tax receipts from tenants and

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis - Continued

subsequent payments to the state are no longer being recorded on the income statement as revenue and expense. Rather, they are being recorded as a pass-through transaction on the Statement of Net Position.

The second significant accounting event was the recording of UCFAH's portion of operating income of the UCF LNMC. UCF LNMC began operations on March 1, 2021, and incurred losses in its first seventeen 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. In Fiscal Year 2022, UCFAH's minority interest portion of the loss was recorded at \$1.8 million and was a catch-up entry for both Fiscal Year 2021 and 2022. In Fiscal Year 2023, UCFAH recorded a gain of \$780 thousand recouping 43% of the initial startup losses recorded at the end of Fiscal Year 2022.

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

	<i>June 30,</i>		<i>Increase/</i>	<i>Percent</i>
	<i>2023</i>	<i>2022</i>	<i>(Decrease)</i>	<i>Change</i>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 928,816	\$ 616,827	\$ 311,989	51%
Accounts receivable	-	12,368	(12,368)	-100%
Current portion of lease receivables	826,433	798,113	28,320	4%
Prepaid expenses other current assets	14,265	11,923	2,342	20%
TOTAL CURRENT ASSETS	1,769,514	1,439,231	330,283	23%
EQUITY INVESTMENT	14,122,443	13,341,967	780,476	6%
OTHER ASSETS				
Lease asset, net	46,666,666	48,333,333	(1,666,667)	-3%
Lease receivables - less current portion	32,276,550	33,167,151	(890,601)	-3%
TOTAL LONG-TERM ASSETS	93,065,659	94,842,451	(1,776,792)	-2%
TOTAL ASSETS	\$ 94,835,173	\$ 96,281,682	\$ (1,446,509)	-2%

Total assets were \$94.8 million at the end of Fiscal Year 2023, a decrease of \$1.4 million driven by the amortization of the UCF LNCC capital lease and a decrease in tenant receivables from FY23 rent payments. Current Assets of \$1.8 million represents the current portion of lease receivables of \$826 thousand, billable to the current tenant/partners at the UCF LNCC and a cash balance of \$929 thousand. Cash reserves increased by \$312 thousand over the prior year due to additional one-time funding provided by the College of Medicine paid as additional CAM rent to the Foundation for the UCF LNCC building operations. Therefore, the additional CAM needed from UCFAH was decreased. The equity investment of UCFAH in CFHS increased by \$780 thousand to \$14.1 million after accounting for the minority interest portion of the CFHS net income and the accrued interest on the Class A Preferred shares that UCFAH holds. Total Long-Term Assets decreased \$1.8 million to \$93.1 million from the amortization of the UCF LNCC capital lease and

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis - Continued

the decrease in tenant receivables. Long-Term Assets of \$93.1 million represents a net lease asset of \$46.7 million and the long-term portion of lease receivables of \$32.3 million.

	<i>June 30,</i> <i>2023</i>	<i>2022</i>	<i>Increase/ (Decrease)</i>	<i>Percent Change</i>
CURRENT LIABILITIES				
Current portion of lease liability	\$ 2,000,000	\$ 2,000,000	\$ -	0%
Unearned revenue	161,860	84,850	77,010	91%
Security deposit liability	25,862	25,862	-	0%
Accrued expenses	19,847	16,859	2,988	18%
Due to affiliate	17,333	-	17,333	100%
TOTAL CURRENT LIABILITIES	2,224,902	2,127,571	97,331	5%
Lease liability - less current portion	43,500,000	45,500,000	(2,000,000)	-4%
TOTAL LIABILITIES	45,724,902	47,627,571	(1,902,669)	-4%
DEFERRED INFLOWS OF RESOURCES				
Deferred lease revenue	31,079,820	32,885,333	(1,805,513)	-5%
TOTAL DEFERRED INFLOWS OF RESOURCES	31,079,820	32,885,333	(1,805,513)	-5%

Total liabilities were \$45.7 million at the end of Fiscal Year 2023, a decrease of \$1.9 million. Current liabilities of \$2.2 million mainly consists of the current portion of the lease liability of \$2 million payable to UCF. The remaining current liability of \$225 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 reflect the long-term portion of the lease liability paid to UCF of \$43.5 million and the deferred lease revenue of \$31.1 million related to the tenant/partners at the UCF LNCC.

	<i>June 30,</i> <i>2023</i>	<i>2022</i>	<i>Increase/ (Decrease)</i>	<i>Percent Change</i>
NET POSITION:				
Unrestricted	\$ 18,030,451	\$ 15,768,778	\$ 2,261,673	14%
TOTAL NET POSITION	\$ 18,030,451	\$ 15,768,778	\$ 2,261,673	14%

The total net position of UCFAH at the end of Fiscal Year 2023 is \$18.0 million, an increase of \$2.3 million over the prior year. 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 increase in net position of \$2.3 million is driven by the accounting treatment of lease revenue recognition. Lease revenue is recognized using an interest rate of 3.3% while the amortization of lease expense is at 0% due to the underlying interest-free mortgage provided to the UCF Foundation which owns the LNCC building. It is also due to the recognition of a \$780 thousand gain on investment from the 20% minority interest in CFHS.

UCF ACADEMIC HEALTH, INC.

Management's Discussion and Analysis - Continued

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	<i>Year Ended</i>			
	<i>June 30,</i>		<i>Increase/</i>	<i>Percent</i>
	<i>2023</i>	<i>2022</i>	<i>(Decrease)</i>	<i>Change</i>
TOTAL OPERATING REVENUE	\$ 3,618,138	\$ 3,579,269	\$ 38,869	1%
TOTAL OPERATING EXPENSES	2,136,941	2,152,447	(15,506)	-1%
OPERATING INCOME	1,481,197	1,426,822	54,375	4%
NON-OPERATING INCOME (EXPENSES)	780,476	(795,044)	1,575,520	198%
CHANGE IN NET POSITION	2,261,673	631,778	1,629,895	258%
NET POSITION, BEGINNING OF YEAR	15,768,778	15,137,000	631,778	4%
NET POSITION, END OF YEAR	\$ 18,030,451	\$ 15,768,778	\$ 2,261,673	14%

Total operating revenue increased slightly to \$3.6 million in Fiscal Year 2023. Total operating expenses decreased slightly to \$2.14 million. Operating expenses include lease amortization expense of \$1.67 million and \$403 thousand for CAM expense to cover building maintenance and operations related to the UCF LNCC building. The remaining \$67 thousand includes consulting expense, financial audit expense, the cost of financial software, and insurance expense. Total operating revenue of \$3.62 million less total operating expense of \$2.14 million provides net operating income of \$1.48 million.

Non-operating income of \$780 thousand reflects UCFAH's minority interest portion of the net income reported by CFHS, the hospital joint venture. This combined with \$1.48 million in operating income provides a positive change in net position of \$2.3 million to \$18 million for Fiscal Year 2023.

STATEMENT OF CASH FLOWS

	<i>Year Ended</i>			
	<i>June 30,</i>		<i>Increase/</i>	<i>Percent</i>
	<i>2023</i>	<i>2022</i>	<i>(Decrease)</i>	<i>Change</i>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,311,989	\$ 2,031,864	\$ 280,125	14%
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,000,000)	(2,000,000)	-	0%
NET INCREASE IN CASH AND CASH EQUIVALENTS	311,989	31,864	280,125	879%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	616,827	584,963	31,864	5%
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 928,816	\$ 616,827	\$ 311,989	51%

Net cash from operating activities was \$2.3 million in Fiscal Year 2023, which consisted of \$2.8 million in cash inflows from tenant leases minus actual payments of CAM to UCF and payments to vendors totaling \$452 thousand. There was a further decrease in cash of \$2 million for lease payments made to UCF. The result was an increase in cash of \$312 thousand.

Financial Statements

UCF ACADEMIC HEALTH, INC.

Statements of Net Position

	<i>June 30,</i>	
	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 928,816	\$ 616,827
Accounts receivable	-	12,368
Current portion of lease receivables	826,433	798,113
Prepaid expenses other current assets	14,265	11,923
TOTAL CURRENT ASSETS	1,769,514	1,439,231
EQUITY INVESTMENT	14,122,443	13,341,967
OTHER ASSETS		
Lease asset, net	46,666,666	48,333,333
Lease receivables - less current portion	32,276,550	33,167,151
TOTAL LONG-TERM ASSETS	93,065,659	94,842,451
TOTAL ASSETS	\$ 94,835,173	\$ 96,281,682
CURRENT LIABILITIES		
Current portion of lease liability	\$ 2,000,000	\$ 2,000,000
Unearned revenue	161,860	84,850
Security deposit liability	25,862	25,862
Accrued expenses	19,847	16,859
Due to affiliate	17,333	-
TOTAL CURRENT LIABILITIES	2,224,902	2,127,571
Lease liability - less current portion	43,500,000	45,500,000
TOTAL LIABILITIES	45,724,902	47,627,571
DEFERRED INFLOWS OF RESOURCES		
Deferred lease revenue	31,079,820	32,885,333
TOTAL DEFERRED INFLOWS OF RESOURCES	31,079,820	32,885,333
COMMITMENTS AND CONTINGENCIES - Note G		
NET POSITION:		
Unrestricted	18,030,451	15,768,778
TOTAL NET POSITION	18,030,451	15,768,778
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 94,835,173	\$ 96,281,682

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

	<i>Year Ended June 30,</i>	
	2023	2022
OPERATING REVENUE:		
Commercial lease revenue	\$ 2,509,877	\$ 2,445,109
Interest income, net	1,108,261	1,134,160
TOTAL OPERATING REVENUE	3,618,138	3,579,269
OPERATING EXPENSES:		
Facility	402,942	430,832
Information technology	7,782	2,637
Professional services	37,331	40,741
Lease asset amortization	1,666,667	1,666,667
Other	22,219	11,570
TOTAL OPERATING EXPENSES	2,136,941	2,152,447
OPERATING INCOME	1,481,197	1,426,822
NON-OPERATING INCOME (EXPENSES):		
Gain (loss) on equity investment	780,476	(1,795,033)
Other	-	999,989
TOTAL NON-OPERATING INCOME (EXPENSES)	780,476	(795,044)
CHANGE IN NET POSITION	2,261,673	631,778
NET POSITION, BEGINNING OF YEAR	15,768,778	15,137,000
NET POSITION, END OF YEAR	\$ 18,030,451	\$ 15,768,778

UCF ACADEMIC HEALTH, INC.

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from rentals	\$ 2,764,284	\$ 2,537,561
Payments to suppliers and for operating expenses	(66,686)	(74,865)
Payments to affiliates	(385,609)	(430,832)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,311,989	2,031,864
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on lease liability	(2,000,000)	(2,000,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,000,000)	(2,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	311,989	31,864
CASH AND CASH EQUIVALENTS, beginning of year	616,827	584,963
CASH AND CASH EQUIVALENTS, end of year	\$ 928,816	\$ 616,827
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,481,197	\$ 1,426,822
Adjustments to reconcile operating income to net cash provided by operating activities:		
Lease asset amortization	1,666,667	1,666,667
Increase (decrease) in cash due to changes in:		
Accounts receivable	12,368	62,214
Lease receivables	862,281	725,520
Prepaid expenses other current assets	(2,342)	(11,923)
Unearned revenue	77,010	(23,991)
Accrued expenses	2,988	(994)
Accounts payable	-	(7,000)
Due to affiliate	17,333	-
Deferred lease revenue	(1,805,513)	(1,805,451)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,311,989	\$ 2,031,864
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Lease liabilities arising from obtaining leased assets	\$ -	\$ 50,000,000
Deferred inflows arising from lease receivables	\$ -	\$ 34,690,784

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 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

Years Ended June 30, 2023 and 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 years ended June 30, 2023 and 2022, respectively.

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 statements of revenue, expenses, and changes in net position.

Operating Revenue and Expenses: UCFAH's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare 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, 2023.

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

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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. UCFAH has adopted the Statement in the basic financial statements as of and for the years ended June 30, 2023 and 2022.

NOTE C--CASH AND CASH EQUIVALENTS

Custodial Credit Risk: At June 30, 2023 and 2022, funds of approximately \$929,000 and \$617,000, respectively, 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, 2023 and 2022, UCFAH had deposits of approximately \$679,000 and \$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 years ended June 30, 2023 and 2022 is as follows:

	<i>Balance</i>				<i>Balance</i>	<i>Amounts Due</i>
	<i>at June 30, 2022</i>	<i>Additions</i>	<i>Remeasurements</i>	<i>Deductions</i>	<i>at June 30, 2023</i>	<i>Within</i>
						<i>One Year</i>
Lease liability	\$ 47,500,000	\$ -	\$ -	\$ (2,000,000)	\$ 45,500,000	\$ 2,000,000
Total	\$ 47,500,000	\$ -	\$ -	\$ (2,000,000)	\$ 45,500,000	\$ 2,000,000

	<i>Balance</i>				<i>Balance</i>	<i>Amounts Due</i>
	<i>at July 1, 2021</i>	<i>Additions</i>	<i>Remeasurements</i>	<i>Deductions</i>	<i>at June 30, 2022</i>	<i>Within</i>
						<i>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

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

Future minimum lease payments for UCFAH are as follows:

<u><i>Year Ending June 30,</i></u>	
2024	\$ 2,000,000
2025	2,000,000
2026	2,000,000
2027	2,000,000
2028	2,000,000
2029-2033	10,000,000
2034-2038	10,000,000
2039-2043	8,000,000
2044-2048	5,000,000
2049-2052	2,500,000
	<u>\$ 45,500,000</u>

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 \$2,510,000 and \$2,445,000 for the years ended June 30, 2023 and 2022, respectively. Future minimum lease commitments, representing future rental revenues, to UCFAH for all leases are as follows:

<u><i>Year Ending June 30,</i></u>	
2024	\$ 1,971,037
2025	2,031,754
2026	2,082,782
2027	2,153,516
2028	2,218,122
2029-2033	12,129,596
2034-2038	14,061,525
2039-2041	8,256,607
	<u>\$ 44,904,939</u>

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

A summary of lease asset activity during the year ended June 30, 2023 and 2022 is as follows:

	<i>Balance at June 30, 2022</i>	<i>Additions</i>	<i>Remeasurements</i>	<i>Deductions</i>	<i>Balance at June 30, 2023</i>
Lease asset:					
Building	\$ 50,000,000	\$ -	\$ -	\$ -	\$ 50,000,000
Less accumulated amortization:					
Building	1,666,667	1,666,667	-	-	3,333,334
Total lease asset, net	<u>\$ 48,333,333</u>	<u>\$ (1,666,667)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,666,666</u>
	<i>Balance at July 1, 2021</i>	<i>Additions</i>	<i>Remeasurements</i>	<i>Deductions</i>	<i>Balance at June 30, 2022</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 \$52,741,312 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>\$ 52,741,312</u>	<u>\$ (37,604,312)</u>

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 \$14,122,443 and \$13,341,967 as of June 30, 2023 and 2022, respectively. UCFAH reported a gain of \$780,476 and a loss of \$1,795,033 during the years ended June 30, 2023 and 2022, respectively, related to its allocation of operating losses of CFHS. The losses for the year ended June 30, 2022 were anticipated by UCFAH as part of the startup of the new hospital.

UCF ACADEMIC HEALTH, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2023 and 2022

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 statements of revenue, expenses, and changes in net position. All CAM payments are due to the UCF Board of Trustees.

As of June 30, 2023 and 2022, nothing was due to the UCF Board of Trustees.

As of June 30, 2023, \$17,333 was due to Central Florida Clinical Practice Organization, Inc. (CFCPO) related to a payment received on CFCPO's behalf.

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, 2023 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, 2023, 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 September 12, 2023.

Report on 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.

Report on 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
September 12, 2023