

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**
(With Management's Discussion and Analysis)

JUNE 30, 2022 AND 2021

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

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THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the consolidated financial position and activities of The University of Connecticut Health Center Finance Corporation and Subsidiaries (the Finance Corporation) as of and for the years ended June 30, 2022, 2021, and 2020. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the notes thereto, which follow this section.

The Finance Corporation functions as a service organization for the University of Connecticut Health Center (UConn Health) and its constituent units including John Dempsey Hospital (the Hospital) and UConn Medical Group (UMG). The Finance Corporation mainly provides contracting, real estate facilities, and pharmaceutical sales to UConn Health.

This annual report consists of management's discussion and analysis and the consolidated financial statements. The basic financial statements (consolidated statements of net position, consolidated statements of revenues, expenses, and changes in net position, and consolidated statements of cash flows) present the financial position of the Finance Corporation and subsidiaries at June 30, 2022 and 2021, and the results of its operations and financial activities for the years then ended. These statements report information about the Finance Corporation using accounting methods similar to those used by private-sector companies. The consolidated statements of net position include all of the Finance Corporation's assets, liabilities, and deferred outflows. The consolidated statements of revenues, expenses, and changes in net position reflect the years' activities on the accrual basis of accounting, (i.e., when services are provided or obligations are incurred, not necessarily when cash is received or paid). These consolidated statements report the Finance Corporation's net position and how it has changed. Net position (the difference between assets and liabilities and deferred outflows) is one way to measure financial health or position. The consolidated statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, investing, and capital financing activities. The consolidated financial statements include notes that explain information in the consolidated financial statements, as well as provide additional detail and context for certain transactions.

SUBSIDIARIES

The Finance Corporation is currently the sole member and parent to the University of Connecticut Health Center Finance Corporation Circle Road Corporation (Circle Road Corporation). Circle Road Corporation's primary purpose is to serve as the financing vehicle for the Outpatient Pavilion (OP). Circle Road Corporation is a 501(c) 3 entity.

The Finance Corporation is also the sole member and parent to the UConn Health Pharmacy Services, Inc. (UHPSI), which is a Connecticut non-stock corporation that operates within the meaning of Section 115 of the Internal Revenue Code. UHPSI provides pharmacy services to UConn Health's constituent units including the Hospital's 340B pharmacy and UMG. Beginning in fiscal year 2021, UHPSI began providing pharmaceuticals to outpatients primarily from the various clinics related to UConn Health.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

The Finance Corporation's financial position at June 30, 2022, 2021, and 2020, included assets of \$228.5 million, \$227.5 million, and \$232.0 million, respectively, and liabilities of \$191.1 million, \$190.9 million, and \$197.6 million, respectively. The value of both the assets and liabilities is attributable mainly to the Finance Corporation maintaining the real estate and related financing on the UConn Musculoskeletal Institute (formerly known as the Medical Arts and Research Building), 16 Munson Road (Munson Road), and the OP.

The Finance Corporation finished the current year with operating income of \$2.7 million compared to operating income of \$3.0 million in the prior year. Current year income decreased with the decline being attributed to the impact of expanded operations at UHPSI. Total Finance Corporation net position increased \$2.7 million in fiscal 2022, compared to an increase of \$4.0 million in fiscal 2021.

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and the World. The COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings of businesses across the country. The impact of COVID-19 on the Finance Corporation and its subsidiaries has been fairly minor. Leases and mortgages were not impacted in fiscal 2021, other than the termination of one of Circle Road Corporation's lease agreements with one of its private tenants. In fiscal year 2020 and 2021, UHPSI believes it lost some revenue due to lower clinical volumes and associated clinical pharmaceutical usage by UMG; however, the impact on the expanded business was undeterminable. Circle Road Corporation continued to make required debt payments throughout this period.

During the year ended June 30, 2021, Circle Road Corporation recouped \$1.0 million in proceeds from a successful business interruption insurance claim based on UMG's COVID-19 related losses exceeding the policy's deductible. This amount was deposited into UConn Health and was paid to Circle Road Corporation during fiscal year 2022. These funds were returned to UMG via a \$1.0 million lease credit for the year ended June 30, 2021.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

Summarized components of the Finance Corporation's Statement of Net Position as of June 30, 2022, 2021, and 2020, are presented below.

	2022	2021 (Restated)	2020 (Restated)
	<i>(In thousands)</i>		
Summary of assets and liabilities at June 30:			
Current assets	\$ 19,411	\$ 17,111	\$ 16,229
Deposits with vendors	7,584	2,054	-
Lease receivable - net of current portion	3,144	4,936	8,284
Net investment in direct financing lease, net of current portion	174,791	178,943	182,548
Property - right-to-use assets, net	357	441	178
Capital assets, net	23,236	23,967	24,714
Total assets	\$ 228,523	\$ 227,452	\$ 231,953
Current liabilities	\$ 27,556	\$ 19,461	\$ 18,884
Long-term liabilities	163,503	171,447	178,674
Total liabilities	\$ 191,059	\$ 190,908	\$ 197,558
Deferred inflows - right-to-use assets	\$ 4,618	\$ 6,422	\$ 8,284
Net investment in capital assets	31,039	28,163	25,021
Unrestricted net assets	1,807	1,959	1,090
Total net position	32,846	30,122	26,111
Total liabilities, deferred inflows, and net position	\$ 228,523	\$ 227,452	\$ 231,953

Individual subsidiary income statements are presented as supplemental information to the consolidated financial statements. Changes in net position, representing the operating activity of the Finance Corporation, primarily composed of revenues and expenses associated with real estate transactions from Circle Road Corporation and the operations of UHPSI, are summarized below for the years ended June 30, 2022, 2021, and 2020:

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

	2022	2021 (Restated)	2020 (Restated)
	<i>(In thousands)</i>		
Summary of revenues, expenses, and nonoperating expenses for the year ended June 30:			
Operating revenues	\$ 88,952	\$ 51,160	\$ 21,207
Operating expenses	(86,217)	(48,122)	(18,991)
Nonoperating (expenses) revenue	(11)	989	(11)
Increase in net position before cumulative effect of implementing GASB 87	2,724	4,027	2,205
Cumulative Effect of implementing GASB 87	-	(16)	-
Increase in net position	\$ 2,724	\$ 4,011	\$ 2,205

SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS

In this section, the Finance Corporation explains the reasons for those financial statement items with significant variances relating to fiscal year 2022 amounts compared to fiscal year 2021.

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets included the following:

- *Malpractice fund* – increased from June 30, 2021 to June 30, 2022 by approximately \$124,000 due to funds transferred in anticipation of fiscal 2023 settlements.
- *Pharmaceutical accounts receivable* – increased from June 30, 2021 to June 30, 2022 by approximately \$1.6 million. Fiscal year 2022 was the second year of expanded operations of UHPSI, which saw revenues double. The increase in accounts receivable reflects this revenue growth as well as management's focus on monitoring receivable balances.
- *Lease receivable* – decreased from June 30, 2021 to June 30, 2022 by approximately \$1.7 million due to continued payments from UConn Health to the Finance Corporation for leasing the MSI building and third-party lease payments for retail space in the OP. Presentation of lease receivables is done in accordance with GASB 87.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF ASSETS AND LIABILITIES (CONTINUED)

- *Inventory* – decreased from June 30, 2021 to June 30, 2022 by approximately \$70,000. Decreased inventory levels despite rapid sales growth are the result of management's focus on maintaining minimal stock levels required to meet patient needs.
- *Net investment in direct financing lease* – decreased from June 30, 2021 to June 30, 2022 by approximately \$3.6 million due to current year scheduled payment activity.
- *Deposits with vendors* – increased from June 30, 2021 to June 30, 2022 by approximately \$5.5 million due to contractual requirements over deposits on increased purchases with AmerisourceBergen, the primary pharmaceutical supplier used by the UHPSI. Deposits are required to access preferred pricing arrangements under the contract.

Changes in liabilities included the following:

- *Accounts payable* – Increased from June 30, 2021 to June 30, 2022 by approximately \$1.9 million due to increased amounts owed related to pharmaceutical purchases.
- *Due to/from related parties* – fluctuated from June 30, 2021 to June 30, 2022 by approximately \$5.1 million primarily due to 340B revenue and supplier deposits due to the Hospital at June 30, 2022, which were offset by repayments received from UMG during the year ended June 30, 2022 for pharmaceuticals obtained from UHPSI.
- *Due to UConn Health – Malpractice fund* – increased from June 30, 2021 to June 30, 2022 by approximately \$124,000 due to funds transferred in anticipation of fiscal 2023 settlements.
- *Loans payable* – decreased from June 30, 2021 to June 30, 2022 by approximately \$7.5 million due to the scheduled mortgage payments being made during fiscal year 2022.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues

Total operating revenues increased from the year ended June 30, 2021 to the year ended June 30, 2022 by approximately \$37.8 million or 73.9%. Significant operating variances are presented below.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

Operating revenues

- *Lease revenue* – increased from the year ended June 30, 2021 to the year ended June 30, 2022 by approximately \$912,000 or 102.4%, as lease income for fiscal year 2021 included a lease credit of \$1.0 million to UMG for OP lease related to the business interruption insurance claim awarded to Circle Road Corporation. Lease income of approximately, \$57,000 from a third party as part of the final payment of this lease agreement was received in 2021. This source of lease revenue was not replaced in the fiscal year ended June 30, 2022.
- *Pharmaceutical revenue* – increased from the year ended June 30, 2021 to the year ended June 30, 2022 by approximately \$38.0 million or 101.6%, due to UHPSI's second full year of expanded business operations, including filling patient prescriptions to outpatients primarily from UConn Health related clinics.

Operating expenses

Total operating expenses increased from the year ended June 30, 2021 to the year ended June 30, 2022 by approximately \$38.1 million or 79.2%.

- *Internal contractual support* – increased from the year ended June 30, 2021 to the year ended June 30, 2022 by approximately \$338,000 or 45.1% due to UHPSI's use of additional pharmacy personnel. The number of full-time employees allocated from UConn Health for fiscal years 2022 and 2021 was approximately 8 and 4, respectively.
- *Outside agency per diems* – increased from the year ended June 30, 2021 to the year ended June 30, 2022 by approximately \$2.3 million or 66.9% due to increased support service costs from Shields Pharmacy of Connecticut II, LLC (Shields) in support of expanded business operations during fiscal year 2022.
- *Pharmaceuticals/ medical supplies*- increased from the year ended June 30, 2021 to the year ended June 30, 2022 by approximately \$36.0 million or 106.1% due to the expanded business operations of UHPSI during fiscal year 2022.

CAPITAL AND DEBT RELATED ACTIVITIES

The Teachers Insurance and Annuity Association of America (TIAA) mortgage for the OP is supported by a 25-year fixed term lease between UConn Health and the Finance Corporation. As a result, capital assets associated with the OP have been reclassified and reported as investment in direct financing lease. For additional information on capital assets and the breakout of the OP's underlying assets, see Notes 3 and 6.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL AND DEBT RELATED ACTIVITIES (CONTINUED)

The OP construction was completed in 2019. The Finance Corporation continues to lease the OP to UConn Health, which in turn subleases the space to related parties. Lease payments from UConn Health provide the funding for the Finance Corporation's OP mortgage payments. For the years ended June 30, 2022 and 2021, the Finance Corporation made all regularly scheduled payments on the mortgage, thereby reducing the principal amount of the secured mortgage on the OP by \$5,807,674 and \$5,535,524, respectively. For additional information on debt-related activities, see Note 4.

The Finance Corporation continues to own and lease the UConn Musculoskeletal Institute property to UConn Health. For the years ended June 30, 2022 and 2021, the Finance Corporation made all regularly scheduled payments on the UConn Musculoskeletal Institute's secured mortgage, thereby reducing the amount of secured mortgage principal debt on the UConn Musculoskeletal Institute by \$1,670,824 and \$1,568,443, respectively. For additional information on debt-related activities, see Note 4.

RELATED PARTIES

During fiscal years 2022 and 2021, UHPSI was charged the cost of pharmacy personnel and other operating expenses while earning revenues from UConn Health for pharmaceuticals sold. The net result of these transactions was an increase to amounts payable to UConn Health of approximately \$1.2 million and \$882,000, respectively. During fiscal years 2022 and 2021, UHPSI repaid UConn Health approximately \$4.1 million and \$4.0 million, respectively.

During fiscal years 2022 and 2021, UHPSI received pharmacy overhead revenue from the Hospital in the amount of approximately \$953,000 and \$1.8 million, respectively. Beginning in fiscal year 2021, the Hospital allocated to UHPSI its share of UConn Health's institutional deposit with AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. The deposit was approximately \$7.6 million at June 30, 2022 and \$2.1 million at June 30, 2021. For the years ended June 30, 2022 and 2021, UHPSI repaid the Hospital approximately \$15.8 million and \$3.0 million, respectively.

During fiscal years 2022 and 2021, UHPSI had pharmaceutical sales to UMG in the amount of approximately \$5.8 million and \$5.7 million, respectively. UHPSI received approximately \$6.0 million and \$11.0 million from UMG, respectively, in fiscal years 2022 and 2021 for prior year sales.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

RELATED PARTIES (CONTINUED)

During the year ended June 30, 2021, Circle Road Corporation was awarded \$1.0 million as proceeds for a successful business interruption insurance claim based on UMG's COVID-19 related losses exceeding the policy's deductible. The insurance policy was held by Circle Road Corporation for the OP. These funds were returned to UMG via a \$1.0 million lease credit for the year ended June 30, 2021. This amount was deposited into UConn Health and was paid to Circle Road Corporation during fiscal year 2022.

For additional information on related parties, see Note 5.

FISCAL YEAR 2023 OUTLOOK

The Finance Corporation was created by statute in recognition of UConn Health's need to implement decisions rapidly in order to provide excellent care in a competitive health care environment with a special focus on the need for expedited processes in the areas of purchasing, leasing, construction, and through joint ventures and shared service agreements with other organizations. The Finance Corporation also provides UConn Health with contracting efficiency and flexibility that is important to meeting the demands of modern healthcare. These services are an integral part of UConn Health's operations.

The Finance Corporation's economic position is closely tied to UConn Health's clinical entities serviced by the Finance Corporation. Through various lease agreements, UConn Health provides funding which enables the Finance Corporation to make its required debt and principal payments. In turn, these facilities allow for the Hospital and UMG to provide state of the art care in modern spaces. The addition of UHPSI provides another opportunity for the Finance Corporation to help clinical operations expand its offerings, adapt to changing insurance and pharmacy landscapes, and maximize financial resources. As we look forward to fiscal year 2023, UConn Health is focused on maintaining flexibility and adaptability in an era of great change. Emerging and re-emerging health threats such as COVID, polio, and monkeypox reinforce the need for a public health infrastructure able to adapt to changing public health needs and minimize the impacts of health disparities in the general population. UConn Health is working diligently to stay abreast of changing clinical and business models as it navigates changing operational, disease, and regulatory landscapes.

UConn Health continues to adapt to new operational realities, including labor and supply shortages through continual re-prioritization, forward thinking, teamwork, and creativity. Continued and evolving public health challenges require new methodologies, partnerships, and treatment options. We are committed to responding to new needs, such as for vaccine boosters and distribution, to serve the people of Connecticut. UConn Health is partnering with other agencies and entities throughout the State of Connecticut to bring additional tools and options to the public.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2023 OUTLOOK (CONTINUED)

The Finance Corporation is dependent upon both the Hospital and UMG for the lease payments that support the Musculoskeletal Institute and OP mortgage payments. It also depends on its relationships with these entities to maximize UHPSI's business opportunities. COVID-19 had a significant impact upon UConn Health's clinical services, including a two-month closure during fiscal year 2020. Fiscal year 2021 saw a cautious re-opening, followed by significant increases in clinical volumes and fiscal 2022 saw a return to normal and increased volumes across the enterprise. During this time, UHPSI's sales have risen as the business expanded its 340B pharmacy sales and offered services to patients in more specialties. UConn Health's management expects these clinical volumes to remain stable in the future.

A combination of institution-wide financial initiatives and additional State funding allowed UConn Health to balance its 2022 spending plan. UConn Health approaches fiscal year 2023 with cautious optimism. While vaccines have helped stem the impact of COVID-19, the omicron variant remains a cautionary warning that the virus can and will continue to mutate. Providers must remain diligent in their planning for future variants. Clinical volumes have rebounded in most specialties and clinical volumes now often exceed pre-pandemic volumes straining delivery mechanisms that saw significant staffing departures over the past year.

Supply shortages and a resurgence of inflation provide additional operational challenges. The global supply chain continues to work towards stabilization. Ports, rail transit, and trucking continue to be bottlenecked which has degraded the reliability of the old "just in time" model. Extreme weather and global geopolitics further complicate product availability. As such, UConn Health is constantly re-evaluating its stocking methodologies to minimize operational disruption. The flexibility offered by the Finance Corporation will be important in allowing UConn Health to adapt to a changing marketplace.

The State, lifted by strong tax receipts and federal aid, reported a surplus for fiscal year 2022, and initial projections for fiscal 2023 are for a small surplus. The State's financial outlook has a direct role in that of UConn Health. Any potential negative changes to the State's economic outlook result in additional unpredictability of State support across UConn Health. UConn Health does not anticipate any issues with making scheduled debt payments, lease payments, or meeting operational needs over the next year.

While we are grateful for State support, UConn Health leadership remains diligent in seeking out continued, appropriate external funding, cost reductions, and programmatic enhancements while protecting quality of care and our delivery of exceptional education and leading-edge research.

Management will continue to monitor these and other factors over the upcoming year as it seeks to strengthen UConn Health for the future.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING FINANCE CORPORATION'S FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, please contact the Office of the Chief Financial Officer, University of Connecticut Health Center, Farmington, Connecticut 06030-3800.



INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
The University of Connecticut Health Center
Farmington, Connecticut

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of The University of Connecticut Health Center Finance Corporation (Finance Corporation or Company), an enterprise fund of the State of Connecticut, as of and for the year ended June 30, 2022, and the related notes to the consolidated financial statements, which collectively comprise the Finance Corporation's basic consolidated financial statements as listed in the table of contents.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the Finance Corporation as of June 30, 2022, and the respective changes in net position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Finance Corporation 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 opinions.

Change in Accounting Principle

As discussed in Notes 1 and 3 to the financial statements, effective July 1, 2021, the Finance Corporation adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Other Matter

The 2021 financial statements of the Finance Corporation were audited by other auditors whose report dated November 30, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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 Finance Corporation'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.

Auditors' 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 auditors' report that includes our opinions. 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 University of Connecticut Health Center Finance Corporation'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 University of Connecticut Health Center Finance Corporation'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 required supplementary information, such as management's discussion and analysis 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 GAAS, 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 Information

Our audit was conducted for the purpose of forming an opinion on the Finance Corporation's consolidated financial statements. The accompanying consolidating supplementary information on pages 47 through 49 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2022, on our consideration of The University of Connecticut Health Center Finance Corporation'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 the Finance Corporation's 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 Finance Corporation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

West Hartford, Connecticut
November 21, 2022

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

CONSOLIDATED STATEMENTS OF NET POSITION

JUNE 30, 2022 AND 2021

	2022	2021 (Restated)
Assets		
Current Assets		
Cash	\$ 6,540,423	\$ 7,104,513
Malpractice fund	568,424	444,512
Pharmaceutical accounts receivable, net (note 7)	3,920,747	2,278,442
Lease receivable - current portion (note 2)	1,791,825	1,682,127
Interest receivable - leases	17,291	23,137
Inventory	1,913,944	1,984,257
Due from UConn Medical Group (note 5)	545,517	-
Net investment in direct financing lease, current portion (note 6)	4,112,746	3,594,218
Total Current Assets	19,410,917	17,111,206
Noncurrent Assets		
Deposits with vendors	7,583,784	2,054,135
Lease receivable - net of current portion (note 2)	3,143,656	4,935,480
Net investment in direct financing lease, net of current portion (note 6)	174,791,204	178,943,074
Property - right-to-use assets, net (note 3)	357,275	441,476
Capital assets, net (note 3)	23,235,749	23,966,479
Total Noncurrent Assets	209,111,668	210,340,644
Total Assets	\$ 228,522,585	\$ 227,451,850

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

CONSOLIDATED STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2022 AND 2021

	2022	2021 (Restated)
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 4,269,276	\$ 2,329,960
Due to UConn Health - Malpractice fund (note 5)	568,424	444,512
Due to UConn Health (note 5)	2,539,919	4,320,029
Due to John Dempsey Hospital (note 5)	12,212,558	4,574,989
Due to UConn Medical Group (note 5)	-	239,649
Advances for construction	6,619	6,619
Interest Payable	1,044	1,186
Security deposits	2,229	2,229
Lease payable, current portion (note 4)	82,816	62,613
Loans payable, current portion (note 4)	7,873,092	7,478,498
Total Current Liabilities	27,555,977	19,460,284
Lease Payable, net of current portion (note 4)	294,696	366,161
Loans payable, net of current portion (note 4)	163,208,013	171,081,105
Total Noncurrent Liabilities	163,502,709	171,447,266
Total Liabilities	191,058,686	190,907,550
Deferred Inflows		
Deferred Inflows - right-to-use assets	4,618,122	6,422,430
Net Position		
Net investment in capital assets	31,038,357	28,163,011
Cumulative Effect of Implementing GASB 87	-	10,987
Unrestricted net assets	1,807,420	1,947,872
Total Net Position	32,845,777	30,121,870
Total Liabilities, Deferred Inflows and Net Position	\$ 228,522,585	\$ 227,451,850

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION**

JUNE 30, 2022 AND 2021

	2022	2021 (Restated)
Operating Revenues		
Interest income from right-to-use buildings	\$ 359,002	\$ 457,933
Lease revenue from right-to-use buildings	1,803,609	891,198
Interest income from direct financing lease	10,382,334	10,581,735
Contract and other income	1,038,737	1,851,832
Pharmaceutical revenue, net (note 7)	75,368,565	37,377,134
Total Operating Revenues	<u>88,952,247</u>	<u>51,159,832</u>
Operating Expenses		
Professional services	25,274	141,255
Internal contractual support	1,088,904	750,619
Outside agency per diems	5,781,714	3,464,874
Pharmaceuticals/medical supplies	69,855,291	33,893,264
Rent	-	85
Equipment and software leases	71,574	131,789
Insurance	750	750
Repairs and maintenance	1,377	7,729
Interest expense	8,501,358	8,871,813
Depreciation	756,342	754,175
Amortization - right-to-use assets	84,201	85,191
Other	50,513	20,679
Total Operating Expenses	<u>86,217,298</u>	<u>48,122,223</u>
Operating Income	<u>2,734,949</u>	<u>3,037,609</u>
Nonoperating Revenue (Expense)		
Insurance proceeds	-	1,000,000
Loan servicing fees	(11,042)	(11,042)
Total Nonoperating Revenue (Expense)	<u>(11,042)</u>	<u>988,958</u>
Increase in Net Position	2,723,907	4,026,567
Net Position - Beginning of year (as previously stated)	30,121,870	26,110,664
Cumulative Effect of Implementing GASB 87	-	(15,361)
Net Position - Beginning of year (as restated)	<u>30,121,870</u>	<u>26,095,303</u>
Net Position - Ending	<u>\$ 32,845,777</u>	<u>\$ 30,121,870</u>

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
JUNE 30, 2022 AND 2021**

	2022	2021 (Restated)
Cash Flows from Operating Activities		
Cash paid to suppliers, contractors and others	\$ (68,990,613)	\$ (45,001,065)
Lease payments received	2,046,274	2,089,745
Cash received for contract and other income	73,833,840	35,206,842
Cash received from (returned to) related parties	(13,849,613)	3,980,717
Cash paid for administrative expenses	(40,902)	(25,252)
Net Cash Used in Operating Activities	<u>(7,001,014)</u>	<u>(3,749,013)</u>
Cash Flows from Investing Activities		
Payments for purchase of capital assets	(25,611)	(6,612)
Change in value of direct financing lease	39,123	10,740
Net Cash Provided by Investing Activities	<u>13,512</u>	<u>4,128</u>
Cash Flows from Capital Financing Activities		
Direct financing lease payments received (including \$10,382,334 and \$10,581,734 of interest, respectively)	13,976,552	13,983,021
Transfers from construction escrow account	-	27,274
Repayments of capital debt	(7,478,498)	(7,103,967)
Payment for lease liability	(63,600)	(124,677)
Loan servicing fees	(11,042)	(11,042)
Net Cash Provided by Capital Financing Activities	<u>6,423,412</u>	<u>6,770,609</u>
Net (Decrease)/Increase in Cash	(564,090)	3,025,724
Cash - Beginning	<u>7,104,513</u>	<u>4,078,789</u>
Cash - Ending	<u>\$ 6,540,423</u>	<u>\$ 7,104,513</u>

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021 (Restated)
Reconciliation of Operating Income to Net Cash		
Used in Operating Activities		
Operating income	\$ 2,734,949	\$ 3,037,609
Depreciation	756,342	754,175
Amortization	84,201	85,191
Interest on right-to-use assets	12,338	7,357
Direct financing lease interest payments received	(10,382,334)	(10,581,735)
Changes in operating assets and liabilities:		
Inventory	70,313	(1,668,032)
Patient & contract receivables	(1,642,305)	(2,278,442)
Lease receivable	1,682,126	1,666,232
Interest receivable	5,846	(23,137)
Deposits to vendors	(5,529,649)	(2,054,135)
Due from UConn Health	(1,780,110)	(3,049,529)
Due from UConn Medical Group	(785,166)	6,291,556
Accounts payable and accrued expenses, excluding payables for capital assets	1,939,316	1,177,058
Interest payable	(142)	(1,217)
Due to John Dempsey Hospital	7,637,569	4,761,545
Security deposits	-	(12,100)
Deferred inflows - leases	(1,804,308)	(1,861,409)
Net Cash Used in Operating Activities	\$ (7,001,014)	\$ (3,749,013)
Schedule of Non-Cash Financing Transactions		
Change in mortgage proceeds held by trustee in construction escrow account	\$ -	\$ 27,274

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Effective July 1, 1987, The University of Connecticut Health Center Finance Corporation (the Finance Corporation or Company) was established pursuant to Public Act No. 87-458. The purpose of the Finance Corporation is to provide greater flexibility for John Dempsey Hospital (21002 Fund) (the Hospital), UConn Medical Group (UMG), and University Dentists (collectively, the entities) and to promote the more efficient provision of health care services. As such, the Finance Corporation has been empowered to purchase supplies and equipment; acquire facilities; approve write-offs of accounts receivable; negotiate and enter into joint ventures, shared service, and other agreements for all of the entities; and process malpractice claims on behalf of the University of Connecticut Health Center (UConn Health), the Hospital, UMG, and the School of Dental Medicine's associated Dental Clinics.

The Finance Corporation is administered by a board of directors currently consisting of the President of the University of Connecticut, the Secretary of the Office of Policy and Management for the State of Connecticut, a member of the Board of Directors of UConn Health, the Executive Vice President for Health Affairs, and the Chairman of the Board of Trustees for the University of Connecticut, who is appointed by the Governor of the State of Connecticut or their respective designees. The Governor appoints one of these members as Chairman of the Board of the Finance Corporation.

The University of Connecticut Health Center Finance Corporation Circle Road Corporation (Circle Road Corporation), a subsidiary of the Finance Corporation, was formed pursuant to Section 10a-254 of the Connecticut General Statutes by the Finance Corporation (its sole member). This subsidiary corporation is administered by a board of directors elected on an annual basis by the sole member's board of directors or appointed by the Governor of the State of Connecticut, as prescribed in the bylaws of Circle Road Corporation. The number of directors shall be not less than three or more than ten, and 50% shall be members of the board of directors of the sole member or appointed by the Governor. At least one of these directors must be an Independent Director. There are four members of the subsidiary corporation's board of directors and five members of the sole member's board of directors.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPORTING ENTITY (CONTINUED)

In 2018, the Finance Corporation created a wholly-owned subsidiary corporation, UConn Health Pharmacy Services, Inc. (UHPSI) pursuant to the authority granted by Section 10a-254 of the Connecticut General Statutes. The subsidiary's main focus is the provision of pharmacy operation services on behalf of UConn Health and its clinical units, including the Hospital and UMG. The subsidiary has been empowered to apply for and obtain all licenses, certificates or other credentials as required for pharmacy operations and granted the ability to enter into such contracts that are necessary or desirable for, or incidental to, the conduct of the subsidiary's business and affairs.

The sole member of UHPSI is the Finance Corporation (the Member). The Member has the power to elect and remove directors to/from UHPSI's Board of Directors. The property and affairs of UHPSI will be managed by or under the direction of UHPSI's Board of Directors.

In 2019, UHPSI commenced operations. UHPSI provides services for specialty prescriptions for patients within clinics associated with UConn Health. The expenses reported in the consolidated statements of revenues, expenses, and changes in net position include allocations from UConn Health for salary and fringe benefits for persons utilized in UHPSI. This is reported as internal contractual support. Otherwise, undetermined amounts for salaries, services, and expenses provided to and received from UConn Health and other Connecticut State agencies are not included in the consolidated statements of revenues, expenses, and changes in net position.

For presentation purposes, activities for and with for Central Administrative Services (CAS), Research Finance, School of Medicine and School of Dental Medicine, including Dental Clinics, are combined under UConn Health.

The Finance Corporation is a component unit of the State of Connecticut and is, therefore, generally exempt from federal income taxes under Section 115 of the Internal Revenue Code of 1986.

BASIS OF PRESENTATION

The Finance Corporation's consolidated financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPRIETARY FUND ACCOUNTING

The Finance Corporation utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.

COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. Since then, COVID-19 and its variants have continued to spread throughout the United States and the world. The COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings of businesses across the country. UConn Health paused elective procedures between March 13, 2020 and May 20, 2020. In fiscal 2021 and 2022, UConn Health diligently began to navigate a path back to providing full services in changed world. We continue to monitor the pandemic and its many associated business challenges including variant waves, supply chain disruption, worker shortages, and aid application and reporting requirements. Management remains focused on providing exceptional, reliable, and safe patient care to our community.

The impact of COVID-19 on the Finance Corporation and its subsidiaries has been fairly minor. During fiscal year 2021, one of the private tenants in the OP elected to terminate its lease. The lease was not previously used to fund debt service payments and Circle Road Corporation continued to make required debt payments. UHPSI was impacted primarily by the reduction in clinical volumes and the expected related clinical pharmaceutical usage, particularly by UMG. In fiscal year 2021, suppressed clinical volumes reduced the number of available prescriptions to be filled; however, the overall impact on UHPSI's expanded business was undeterminable given UHPSI's status as a new corporation. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Finance Corporation's financial condition or results of operations is uncertain as of the date of this report.

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 contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial statement areas where management applies the use of estimates consist primarily of the allowance for uncollectible accounts, contractual allowances, certain estimates related to the valuation of the direct financing lease and GASB 87 lease estimates, and malpractice.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH

Cash includes cash held on behalf of the Finance Corporation by the State of Connecticut.

CONTRACT AND OTHER INCOME

Contract and other income is recorded on the accrual basis of accounting in the period the related services were rendered.

As described in Note 5, UHPSI provides pharmaceuticals to UMG, and records revenue on the accrual basis of accounting in the period the related services are rendered.

Additionally, during fiscal year 2020, the Hospital pharmacy began allocating overhead revenue related to certain pharmaceutical sales to UHPSI on a monthly basis. This revenue is included in contract and other income on the consolidated statements of revenues, expenses, and changes in net position. The amount of overhead revenue allocated to UHPSI for fiscal years ended June 30, 2022 and 2021 were approximately \$953,000 and \$1.8 million, respectively.

PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE

Beginning in fiscal year 2021, UHPSI expanded its business operations to include filling patient prescriptions to outpatients primarily from UConn Health related clinics.

A uniform pricing structure is used for billing to Pharmacy Benefit Managers (PBMs) subject to contractual allowances as negotiated by the Pharmacy Services Administrative Organization (PSAO). Contractual allowances will reduce the amount received and will vary based on rates, such as Medicare, Medicaid, and commercial contracts. Pharmaceutical revenues, net of contractual allowances and direct and indirect remuneration (DIR) fees, are recognized on the accrual basis of accounting when prescriptions are filled. Accounts receivable from patients, third-party payers, and others for pharmaceutical purchases represent the net amounts owed to UHPSI for which payment had not been received as of June 30, 2022.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

UHPSI PHARMACY MANAGEMENT

In November 2019, UConn Health entered a five-year agreement with a third party, Shields Pharmacy of Connecticut II, LLC (Shields), for support services for UHPSI. These services include support for patient liaisons, medication adherence management, revenue cycle management and other services. These services are billed on a monthly basis. The 5-year term of the agreement began on the date the first prescription was filled.

The agreement includes a performance fee based on a specific profitability calculation as stipulated in the agreement. These fees are calculated and billed monthly.

340B PROGRAM

Section 340B of the Public Health Service Act requires pharmaceutical manufacturers participating in Medicaid to sell outpatient drugs at discounted prices to health care organizations that care for many uninsured and low-income patients. The Hospital qualifies as a covered entity (CE) under this provision. Therefore, the Hospital is qualified to receive 340B savings for certain pharmaceutical purchases, as the Hospital is a public entity classified as a Disproportionate Share Hospital (DSH) that serves a disproportionately higher percentage of Medicaid payers. When the patient establishes a relationship with the CE, the CE is then allowed to receive 340B savings.

UHPSI is a contract pharmacy for the Hospital and receives revenue for filling and dispensing 340B qualified pharmaceuticals to patients. The contract pharmacy fills and dispenses pharmaceuticals on behalf of the CE; therefore, UHPSI receives a dispensing fee for these transactions, as provided for in the agreement with the Hospital, and reimburses the Hospital for the total revenue less the dispensing fee.

INVENTORY

Pharmaceuticals are valued at market value, which approximates cost due to high turnover rates.

DEPOSITS WITH VENDORS

Beginning in fiscal year 2021, UHPSI was required to keep an amount on deposit with AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. The deposit is based on a percentage of quarterly purchasing history from AmerisourceBergen. These deposits are

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSITS WITH VENDORS (continued)

non-interest bearing and are considered subject to the credit risk of the supplier. As of June 30, 2022 and 2021, amounts on deposit were approximately \$7.6 million and \$2.1 million, respectively.

DESCRIPTION OF LEASING ARRANGEMENTS

The OP lease, effected through the Circle Road Corporation, is a direct financing lease for both the OP building and its associated equipment. Under this treatment, the underlying capital assets are reported as net investment in direct financing lease. The associated equipment will be depreciated over a maximum 10-year life, while the building will be depreciated over 40 years. The term of the lease is 25 years, as stipulated in the mortgage agreement with Teachers Insurance and Annuity Association of America (TIAA). At the conclusion of the lease, any residual amounts will revert to capital assets, net. The Finance Corporation reviews the estimated residual value of property leased under the direct financing lease on an annual basis. See Note 5 and Note 6 for additional information.

Circle Road Corporation is a lessor for office space to a third party. A lease receivable and a deferred inflow of resources based on the present value of the future lease payments expected to be received during the contracted lease term and the deferred inflow of resources is amortized evenly over the life of the lease.

Finance Corporation routinely engages in lease arrangements to meet operational needs of UConn Health and UHPSI. The lease agreements relate to office space. For agreements in which Finance Corp is the lessee, it records a lease liability and an intangible right-to-use lease asset based on the present value of future lease payments over the term of the lease. Lease right-to-use assets net of amortization and liabilities are reported as current and non-current in the statement of net position. The right-to-use assets are amortized over the term of the lease or the estimated useful life of the asset. Finance Corporation is a lessor providing space in the MSI building to the Hospital, UMG, and UConn Health.

Finance Corporation uses the incremental borrowing rate as the discount rate for leases unless the rate the lessor charges is known. The incremental borrowing rate is based on the weighted-average interest rate of outstanding debt and capital lease obligations. If amendments or other circumstances occur that are expected to significantly affect the amount of the lease, the present value is remeasured, and corresponding adjustments made. Many lease contracts include increases to rent payments related to the consumer price index (CPI) or similar indexes, and the available index increase is included in the present value at the commencement of the lease

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

or upon remeasurement. Payments based on future performance are not included in the measurement of the lease liability or lease receivable but are recognized as revenue or expenses in the period performed. Residual value guarantees and exercise options will be included in the measurement if they are reasonably certain to be paid or exercised.

The Finance Corporation elected to record the value of all leased assets in accordance with GASB 87 for lease reporting.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are defined as an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. These amounts are reported in the statement of net position in a separate section, after total liabilities. The Finance corporation has lease deferrals that meet this criterion.

LEASE INCOME AND INTEREST INCOME

Lease income is recognized over the lease period by reference to the lease agreements. Interest income on the direct financing lease is recognized over the term of the lease to produce a constant, periodic rate of return on the net investment of the lease. Unearned income related to the direct financing lease is amortized over the lease term using the interest method.

MALPRACTICE FUND

The malpractice fund includes investments held on behalf of UConn Health and is offset in Due to UConn Health – Malpractice fund on the consolidated statements of net position. The fund is invested in the State of Connecticut Short-Term Investment Fund (STIF). The STIF is an investment pool of high-quality, short-term money market instruments that is considered a “2a7-like” pool, which is excluded from the scope of GASB Statement No. 72, *Fair Value Measurement and Application*. The cost of the STIF approximates fair value. The Finance Corporation is responsible for the timely payment of malpractice fund claims. Therefore, the Finance Corporation monitors upcoming cash needs and holds an amount estimated for upcoming malpractice fund liabilities in its account. The claim liability is reflected on UConn Health’s financial statements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND INTANGIBLE ASSETS

Property and equipment acquisitions are recorded at cost. Betterments and major renewals are capitalized, and maintenance and repairs are expensed as incurred. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Buildings have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years. Assets acquired under capital leases and leasehold improvements are depreciated no longer than the lease term. Construction in progress is capitalized as costs are incurred during the construction phase, and depreciation will begin once the assets are placed in service.

Intangible assets are comprised of right-to-use assets under lease agreements for pharmacy space.

CONSTRUCTION ESCROW ACCOUNT

The construction escrow account represented amounts advanced from TIAA to Wells Fargo Bank Northwest, N.A. (Trustee) for the financing of the OP construction project. Such amounts represent cash held by the Trustee that had not yet been drawn down fully by the Finance Corporation for construction expenses. During fiscal year 2021, Finance Corporation utilized the remaining balance of \$27,274 from the construction escrow account toward the final costs related to completion of loan documents with the Trustee. Refer to Note 4 for additional information related to the debt.

ADVANCES FOR CONSTRUCTION

Advances for construction in the amount of \$6,619 as of June 30, 2022 and 2021, represent the unused portion of bond proceeds that were received in March 1993 by the Finance Corporation, which are to be used for the Farm Hollow Building renovations.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITION

Net position is classified in two components. Net investment in capital assets consists of capital and right-to-use assets net of accumulated depreciation/amortization, reduced by the current net balances of any outstanding borrowings (less amounts held in trust) used to finance the purchase or construction of those assets. All other assets less liabilities are classified as unrestricted.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The following GASB accounting pronouncements were adopted during fiscal year 2022: GASB Statement No. 87, *Leases* (GASB 87); GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89); GASB Statement No. 92, *Omnibus 2020* (GASB 92); and Paragraphs 13 and 14 of GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93). Additional information on the impact of the implementation of GASB 87 is included in Note 1 and below of these financial statements. The other pronouncements did not have a material impact on the financial statements.

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflow of resources or outflows of resources recognized based on the payment provisions of the contracts. It establishes a single model for lease accounting based on the foundational principal that leases are financings of the right-to-use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The Finance Corporation adopted the requirements of the guidance effective July 1, 2021 and has applied the provisions of this standard to the beginning of the earliest comparative period presented. The impact of adopting GASB Statement No. 87 of select accounts on the statement of net position and statement of revenues, expenses and changes in net position as of June 30, 2021 was as follows:

Combined Statement of Net Position	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Current Assets			
Lease receivable - current portion	\$ -	\$ 1,682,127	\$ 1,682,127
Interest receivable - leases	-	23,137	23,137
Noncurrent Assets			
Intangible - right-to-use assets, net	-	441,476	441,476
Lease receivable - net of current portion	-	4,935,480	4,935,480
Current Liabilities			
Interest Payable	-	1,186	1,186
Lease payable, current portion	-	62,613	62,613
Noncurrent Liabilities			
Lease payable, net of current portion	-	366,161	366,161
Deferred Inflows - right-to-use assets	-	6,422,430	6,422,430
Net Position	\$ 29,892,040	\$ 229,830	\$ 30,121,870

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Combined Statement of Revenues, Expenses, and Changes in Net Position	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Operating Revenues			
Rental Income	\$ 1,104,074	\$ (1,104,074)	\$ -
Lease revenue from right-to-use buildings	-	891,198	891,198
Interest income from right-to-use buildings	-	457,933	457,933
Operating Expenses			
Rent	92,767	(92,682)	85
Amortization - right-to-use assets	-	85,191	85,191
Nonoperating Revenues and Expenses			
Interest expense	8,864,456	7,357	8,871,813
Cumulative effect of implementing GASB 87	-	(15,361)	(15,361)
Net Position	\$ 29,892,040	\$ 229,830	\$ 30,121,870

UPCOMING ACCOUNTING PRONOUNCEMENTS

The Finance Corporation is considering the impact on its financial statements of the following upcoming GASB accounting pronouncements: GASB Statement No. 91, *Conduit Debt Obligations* (GASB 91) effective for reporting periods beginning after December 15, 2021; GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94) effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter; and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) effective for fiscal years beginning after June 15, 2022 and all reporting period thereafter.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 2 – LEASE RECEIVABLE

As described in Note 1, the lease to UConn Health for the MSI building and to a third party for space in the OP based on the present value of the future payments are as follows:

	June 30, 2021			June 30, 2022	Amount due
Lease receivables:	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>	<u>within 1 year</u>
Buildings and building improvements total	\$ 6,617,607	\$ -	\$ (1,682,126)	\$ 4,935,481	\$ 1,791,825

	June 30, 2020			June 30, 2021	Amount due
Lease receivables:	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>	<u>within 1 year</u>
Buildings and building improvements total	\$ 8,226,739	\$ -	\$ (1,609,132)	\$ 6,617,607	\$ 1,682,127

Lease payments to be received are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Lease Receivables</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 1,791,825	\$ 255,149
2024	1,908,364	138,610
2025	836,338	32,629
2026	9,605	18,977
2027	10,077	18,505
2028-32	63,302	84,430
2033-37	93,011	65,804
2038-42	131,666	39,070
2043-47	91,293	6,361
	<u>\$ 4,935,481</u>	<u>\$ 659,535</u>

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets as of June 30, 2022 and 2021 consisted of the following:

	2022	2021
Buildings	\$ 29,730,870	\$ 29,730,870
Land	6,593,084	6,593,084
Equipment	50,905	25,293
	36,374,859	36,349,247
Less accumulated depreciation	13,139,110	12,382,768
Capital assets, net	\$ 23,235,749	\$ 23,966,479

As described in Note 1, the OP is leased to UConn Health under the terms of a direct financing lease.

Capital assets and depreciation activity for the years ended June 30, 2022 and 2021 were as follows:

	2021	Additions	Deductions	2022
Buildings	\$ 29,730,870	\$ -	\$ -	\$ 29,730,870
Land	6,593,084	-	-	6,593,084
Equipment	25,293	25,612	-	50,905
Less: accumulated depreciation - Buildings	(12,367,940)	(753,300)	-	(13,121,240)
Less: accumulated depreciation - Equipment	(14,828)	(3,042)	-	(17,870)
	\$ 23,966,479	\$ (730,730)	\$ -	\$ 23,235,749

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE ASSETS (CONTINUED)

	2020	Additions	Deductions	2021
Buildings	\$ 29,730,870	\$ -	\$ -	\$ 29,730,870
Land	6,593,084	-	-	6,593,084
Equipment	18,681	6,612	-	25,293
Less: accumulated depreciation - Buildings	(11,614,642)	(753,298)	-	(12,367,940)
Less: accumulated depreciation - Equipment	<u>(13,951)</u>	<u>(877)</u>	<u>-</u>	<u>(14,828)</u>
	<u>\$ 24,714,042</u>	<u>\$ (747,563)</u>	<u>\$ -</u>	<u>\$ 23,966,479</u>

Intangible assets at June 30, 2022 and 2021 Consisted of the following:

	2021	Additions	Deductions	2022
Right-to-use buildings	\$ 466,110	\$ -	\$ -	\$ 466,110
Right-to-use equipment	60,557	-	-	60,557
Less: accumulated amortization- Buildings	(81,633)	(72,090)	-	(153,723)
Less: accumulated amortization- Equipment	<u>(3,558)</u>	<u>(12,111)</u>	<u>-</u>	<u>(15,669)</u>
	<u>\$ 441,476</u>	<u>\$ (84,201)</u>	<u>\$ -</u>	<u>\$ 357,275</u>

	2020	Additions	Deductions	2021
Right-to-use buildings	\$ 466,110	\$ -	\$ -	\$ 466,110
Right-to-use equipment	60,557	-	-	60,557
Less: accumulated amortization Buildings	-	(81,633)	-	(81,633)
Less: accumulated amortization- Equipment	<u>-</u>	<u>(3,558)</u>	<u>-</u>	<u>(3,558)</u>
	<u>\$ 526,667</u>	<u>\$ (85,191)</u>	<u>\$ -</u>	<u>\$ 441,476</u>

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 4 – NONCURRENT LIABILITIES

The Finance Corporation routinely leases various facilities and equipment instead of purchasing the assets. The contracts at times, include variable payments, residual value guarantees or termination penalties that are not known or certain to be exercised at the time of the lease liability valuation. These are recognized as expenses in the period that they occur. For the fiscal year ended June 30, 2022, the Finance Corporation recognized expense for lease variable payments related to common area maintenance and property taxes of \$1,684. There were no termination penalties of residual guarantee payments expensed for the fiscal year ended June 30, 2022.

The Finance Corporation has a loan agreement held by KeyBank Real Estate Capital (KeyBank), which financed the construction of the UConn Musculoskeletal Institute. The Finance Corporation through its subsidiary, the Circle Road Corporation, has a mortgage with TIAA, which financed the construction of the OP. Changes in long-term obligations for the years ended June 30, 2022 and 2021, respectively are as follows:

	June 30, 2021			June 30, 2022	Amounts due within 1 year
	Balance	Additions	Repayments	Balance	
Business-type activities:					
Notes from Direct Borrowings -					
Capital Lease Funding (KeyBank)	\$ 6,172,885	\$ -	\$ (1,670,824)	\$ 4,502,061	\$ 1,779,887
TIAA	<u>172,386,718</u>	<u>-</u>	<u>(5,807,674)</u>	<u>166,579,044</u>	<u>6,093,205</u>
	<u>\$ 178,559,603</u>	<u>\$ -</u>	<u>\$ (7,478,498)</u>	<u>\$ 171,081,105</u>	<u>\$ 7,873,092</u>

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 4 – NONCURRENT LIABILITIES (CONTINUED)

	June 30, 2020			June 30, 2021	Amounts due within 1 year
	Balance	Additions	Repayments	Balance	
Business-type activities:					
Notes from Direct Borrowings -					
Capital Lease Funding (KeyBank)	\$ 7,741,328	\$ -	\$ (1,568,443)	\$ 6,172,885	\$ 1,670,824
TIAA	<u>177,922,242</u>	<u>-</u>	<u>(5,535,524)</u>	<u>172,386,718</u>	<u>5,807,674</u>
	<u>\$ 185,663,570</u>	<u>\$ -</u>	<u>\$ (7,103,967)</u>	<u>\$ 178,559,603</u>	<u>\$ 7,478,498</u>

Long-term debt obligations as of June 30 consisted of the following:

	2022	2021
Secured mortgage - Capital Lease Funding (KeyBank), principal and interest payments began January 2004 and continue until November 2024, with interest at 6.34%	\$ 4,502,061	\$ 6,172,885
Secured mortgage - TIAA, 25 year, 4.809% coupon. Principal and interest payments began on April 15, 2015 and will continue until March 15, 2040.	<u>166,579,044</u>	<u>172,386,718</u>
	<u>\$ 171,081,105</u>	<u>\$ 178,559,603</u>

The Finance Corporation's outstanding notes from direct borrowings related to business-type activities of \$171,081,105 and \$178,559,603 as of June 30, 2022 and 2021, respectively, are secured by the Musculoskeletal Institute building, the OP, the Leasehold (as to Land) and Fee (as to improvements) Mortgage, Security Agreement, Assignment of Lease and Rents and Fixture Filing. The outstanding notes from direct borrowings related to business-type activities contain a provision that in an event of default, outstanding amounts become immediately due. As of June 30, 2022, there were no instances of default under these agreements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 4 – NONCURRENT LIABILITIES (CONTINUED)

Debt service requirements on long-term debt at June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	Business-Type Activities	
	Notes from Direct Borrowings	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 7,873,092	\$ 8,111,949
2024	8,288,840	7,696,199
2025	7,533,172	7,276,924
2026	7,036,815	6,934,037
2027	7,382,775	6,588,077
2028-2032	42,728,727	27,125,533
2033-2037	54,317,200	15,537,059
2038-2041	35,920,484	2,499,357
	\$ 171,081,105	\$ 81,769,135

The Finance Corporation recorded interest expense of \$8,489,020 and \$8,864,456, respectively, during the years ended June 30, 2022 and 2021.

The following summary provides information reported at June 30, 2022 for lease liability additions and reductions during the fiscal year:

	Balance			Balance	Amounts
	July 1, 2021	Additions	Reductions	June 30, 2022	due within 1 year
Right-to-use building	\$ 371,168	\$ -	\$ (39,911)	\$ 331,257	\$ 71,064
Right-to-use equipment	57,606	-	(11,351)	46,255	11,752
	\$ 428,774	\$ -	\$ (51,262)	\$ 377,512	\$ 82,816

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 4 – NONCURRENT LIABILITIES (CONTINUED)

	Balance			Balance	Amounts
	July 1, 2020	Additions	Reductions	June 30, 2021	due within 1 year
Right-to-use building	\$ 116,975	\$ 349,135	\$ (94,942)	\$ 371,168	\$ 39,911
Right-to-use equipment	60,557	-	(2,951)	57,606	22,702
	<u>\$ 177,532</u>	<u>\$ 349,135</u>	<u>\$ (97,893)</u>	<u>\$ 428,774</u>	<u>\$ 62,613</u>

The following is a schedule by fiscal year of future minimum payments due for leases, together with the present value of the net minimum payments as of June 30, 2022:

<u>Year Ending June 30,</u>	<u>Lease Liabilities</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 82,816	\$ 11,827
2024	85,722	8,922
2025	90,300	5,853
2026	90,965	2,648
2027	27,709	202
	<u>\$ 377,512</u>	<u>\$ 29,452</u>

NOTE 5 – RELATED PARTY TRANSACTIONS

The Finance Corporation enters into transactions for the benefit of UConn Health entities. In 2006, the Finance Corporation entered into transactions resulting in the acquisition of the UConn Musculoskeletal Institute and Munson Road properties. The Finance Corporation leases these buildings to entities from UConn Health under operating agreements that renew annually.

Through UHPSI, the Finance Corporation also engages in transactions with UConn Health. UHPSI provides pharmaceuticals to patients from the Hospital and UMG while obtaining personnel and other services vital for operations from UConn Health.

The Circle Road Corporation has a 25-year direct financing lease with UConn Health, designed to facilitate the monthly debt service payments on its mortgage with TIAA. Effective April 2015, the Circle Road Corporation began charging rent to UConn Health's clinical enterprises, including the Hospital and UMG. The amounts allocated to each of UConn Health's internal business units is determined based on the square footage and evaluated annually.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

Lease payments to be received under these agreements, which cover mortgage payments including principal, interest and services fees, over the next five years and thereafter are estimated to be as follows:

<u>Year ending June 30,</u>	<u>Outpatient Pavilion (a)</u>	<u>UConn Musculoskeletal Institute</u>
2023	\$ 13,975,852	\$ 2,020,230
2024	13,975,852	2,020,230
2025	13,975,852	841,762
2026	13,975,852	-
2027	13,975,852	-
Thereafter	178,088,758	-
	\$ 247,968,018	\$ 4,882,222

(a) OP amounts are due under a non-cancellable direct financing lease with UConn Health. Additional details can be found in Note 6.

Listed in the tables below are material transactions with related parties and the component units of the Finance Corporation to show the changes in amounts due (to) from each entity as of June 30, 2022 and 2021. Certain transactions that were settled during the fiscal years with transfers, payments or cash receipts and did not result in a receivable or payable balance at June 30 have been excluded from these tables. The paragraphs that follow describe the related party transactions that are summarized in the aforementioned tables.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE (TO) UCONN HEALTH

	2022	2021
Due (to) UConn Health - Beginning Balance:	\$ (4,320,029)	\$ (8,369,558)
<u>Circle Road Corporation:</u>		
Insurance proceeds	-	1,000,000
Cash repayments to UConn Health	(1,000,000)	-
Loan closeout expenses	-	(68,970)
<u>UHPSI:</u>		
Internal contractual support and other expenses, net of pharmaceuticals sold	(1,229,205)	(881,501)
Cash repayments to UConn Health	4,087,319	4,000,000
Cash received from UConn Health	(78,004)	-
Total Change in Due (to) UConn Health	<u>\$ 1,780,110</u>	<u>\$ 4,049,529</u>
Due (to) UConn Health - Ending Balance:	<u>\$ (2,539,919)</u>	<u>\$ (4,320,029)</u>

During the year ended June 30, 2021, Circle Road Corporation received \$1.0 million as proceeds for a successful business interruption insurance claim based on UMG’s COVID-19 related losses exceeding the policy’s deductible. The insurance policy was held by Circle Road Corporation for the OP. This amount was deposited into UConn Health and was paid to Circle Road Corporation during fiscal year 2022. These funds were returned to UMG via a \$1.0 million lease credit for the year ended June 30, 2021. Also, during fiscal year 2021, the final loan settlement was made for the OP. UConn Health paid a portion of these costs in the amount of \$68,970 on behalf of Circle Road Corporation.

During fiscal year 2022 and 2021, UHPSI incurred costs for pharmacy personnel and other operating expenses offset by pharmaceutical revenues from sales to UConn Health, netting to an increase in the amount owed to UConn Health by approximately \$1.2 million and \$882,000, respectively. During the years ended June 30, 2022 and 2021, UHPSI repaid UConn Health approximately \$4.1 million and \$4.0 million, respectively.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE (TO) JOHN DEMPSEY HOSPITAL

	2022	2021
Due from (to) John Dempsey Hospital - Beginning Balance:	\$ (4,574,989)	\$ 186,556
<u>UHPSI:</u>		
Deposits with vendors	(5,097,529)	(2,054,135)
Pharmaceuticals and other expenses	3,073	(38,000)
340B Revenue	(19,308,687)	(7,498,431)
Cash repayments	15,812,094	3,000,000
Overhead revenue	953,480	1,829,021
Total Change in Due (to) John Dempsey Hospital	<u>\$ (7,637,569)</u>	<u>\$ (4,761,545)</u>
Due (to) John Dempsey Hospital - Ending Balance:	<u>\$ (12,212,558)</u>	<u>\$ (4,574,989)</u>

During fiscal years 2022 and 2021, UHPSI received pharmacy overhead revenue from the Hospital in the amount of approximately \$953,000 and \$1.8 million, respectively. UHPSI was allocated its share of a deposit to AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. The amounts allocated were approximately \$5.1 and \$2.1 million for fiscal years ended 2022 and 2021, respectively.

During fiscal years 2022 and 2021, UHPSI repaid the Hospital approximately \$15.8 million and \$3.0 million, respectively.

During fiscal years 2022 and 2021, UHPSI had transactions with the Hospital for 340B pharmaceutical sales. Payments received by UHPSI for 340B sales was approximately \$23.8 million and \$8.8 million, respectively. The amount due to the Hospital pharmacy, less dispensing fees of approximately \$4.6 million was approximately \$19.3 at June 30, 2022. The amount due to the Hospital pharmacy, less dispensing fees of approximately \$1.3 million, was approximately \$7.5 million at June 30, 2021.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE (TO) FROM UMG

	2022	2021
Due (to) from UConn Medical Group - Beginning Balance:	\$ (239,649)	\$ 6,051,907
<u>Circle Road Corporation:</u>		
Lease credit	-	(1,000,000)
Payment to UMG for lease credit	1,000,000	-
<u>UHPSI:</u>		
Pharmaceuticals & courier services charged back to UConn Medical Group	5,771,778	5,708,444
Cash received from UConn Medical Group	<u>(5,986,612)</u>	<u>(11,000,000)</u>
Total Change in Due from (to) UConn Medical Group	<u>\$ 785,166</u>	<u>\$ (6,291,556)</u>
Due from (to) UConn Medical Group - Ending Balance:	<u>\$ 545,517</u>	<u>\$ (239,649)</u>

During fiscal year 2022 and 2021, UHPSI provided pharmaceuticals and related services to UMG in the amount of approximately \$5.8 and \$5.7 million, respectively. Pharmaceutical expense to UMG is recorded as a chargeback from UHPSI. During the years ended June 30, 2022 and 2021, UMG repaid UHPSI \$6.0 and \$11.0 million, respectively.

DUE (TO) UCONN HEALTH - MALPRACTICE FUND

	2022	2021
Due (to) UConn Health-Malpractice Fund - Beginning Balance	\$ (444,512)	\$ (2,173,675)
Cash transfers from UConn Health & interest	(1,801,934)	(3,201,041)
Payments on behalf of UConn Health	<u>1,678,022</u>	<u>4,930,204</u>
Total Change in Due (to) UConn Health-Malpractice Fund	<u>\$ (123,912)</u>	<u>\$ 1,729,163</u>
Due (to) UConn Health-Malpractice Fund - Ending Balance	<u>\$ (568,424)</u>	<u>\$ (444,512)</u>

Balances at fiscal year end for the Malpractice fund can fluctuate based on funding needs for payments.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 6 – INVESTMENT IN DIRECT FINANCING LEASE

The OP lease, created through the Circle Road Corporation, is a non-cancellable 25-year lease supporting the repayment of the TIAA mortgage. As such, this lease is classified as a direct financing lease. Under this treatment, the underlying capital assets are not recorded separately on the consolidated statements of net position. Instead, the Finance Corporation records its net investment in direct financing lease. The components of the net investment in direct financing lease are shown below as of June 30, 2022 and 2021.

	2022	2021
Net minimum lease payments receivable	\$ 248,083,797	\$ 262,060,349
Estimated residual value of leased property (unguaranteed)	65,861,269	65,861,269
Less unearned income	(135,041,116)	(145,384,326)
Net investment in direct financing lease	\$ 178,903,950	\$ 182,537,292

The following schedule provides an analysis of the Circle Road Corporation's cost of the property held for lease under the direct financing lease as of June 30, 2022 and 2021.

	2022	2021
Building	\$ 182,613,585	\$ 182,613,585
Equipment	13,789,114	14,262,148
Art	104,351	104,351
	\$ 196,507,050	\$ 196,980,084

The associated equipment has a maximum useful life of 10 years, while the building has a useful life of 40 years. The term of the lease is 25 years, as stipulated in the mortgage agreement with TIAA. At the conclusion of the lease, any residual amounts will revert to capital assets.

NOTE 7 – PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE

As disclosed in Note 1, beginning in fiscal year 2021, UHPSI expanded its business operations to include filling patient prescriptions to outpatients primarily from UConn Health related clinics.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 7 – PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE (CONTINUED)

Pharmaceutical revenues reported net of contractual allowances, DIR fees, and bad debt for the year ended June 30, 2022 and 2021 were:

	<u>2022</u>	<u>2021</u>
Gross pharmaceutical revenue	\$ 108,654,478	\$ 49,356,197
Less contractual allowances, DIR fees, bad debt	<u>(33,285,913)</u>	<u>(11,979,063)</u>
Net pharmaceutical revenue	<u>\$ 75,368,565</u>	<u>\$ 37,377,134</u>

SIGNIFICANT CONCENTRATIONS

In fiscal year 2022 and 2021, revenue received by UHPSI for Medicare, Medicaid, and Commercial payers were approximately as follows:

Revenue:

<u>Payer</u>	<u>2022</u>	<u>2021</u>
Medicare	24.74%	22.00%
Medicaid	57.12%	61.30%
Commercial	18.14%	16.70%
	<u>100.00%</u>	<u>100.00%</u>

Pharmaceutical accounts receivable for fiscal year 2022 and 2021, due from Medicare, Medicaid, and commercial insurance were approximately as follows:

Pharmaceutical Accounts Receivable:

<u>Payer</u>	<u>2022</u>	<u>2021</u>
Medicare	34.45%	24.30%
Medicaid	42.76%	50.70%
Commercial	22.79%	25.00%
	<u>100.00%</u>	<u>100.00%</u>

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 8 – SUBSEQUENT EVENTS

The Finance Corporation has evaluated subsequent events through November 21, 2022, which represents the date the financial statements were available to be issued. The following matters were noted:

On June 8, 2022, the Finance Corporation entered into a joint venture with OIA of Connecticut, LLC to form UConn Health Imaging, LLC. UConn Health Imaging will provide additional radiology services off UConn Health's main campus in Farmington in a non-hospital clinic setting. The Finance Corporation will retain a 75% ownership interest in the joint venture and funded its initial capital call to the new corporation in September of 2022.

No other subsequent events requiring recognition or disclosure in the financial statements were identified.



**INDEPENDENT AUDITORS' 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***

Joint Audit and Compliance Committee
The University of Connecticut Health Center
Hartford, Connecticut

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 consolidated financial statements of The University of Connecticut Health Center Finance Corporation (Finance Corporation or the Company), as of and for the year ended June 30, 2022, and the related notes to the consolidated financial statements, which collectively comprise the Finance Corporation's consolidated financial statements, and have issued our report thereon dated November 21, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Finance Corporation'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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Finance Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Finance Corporation'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 the entity's consolidated 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 the Finance Corporation's consolidated 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 consolidated 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

West Hartford, Connecticut
November 21, 2022

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

SCHEDULE I – CONSOLIDATING STATEMENT OF NET POSITION

JUNE 30, 2022

	The University of Connecticut Health Center Finance Corporation	UHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Assets				
Current Assets				
Cash	\$ -	\$ -	\$ 6,540,423	\$ 6,540,423
Malpractice fund	568,424	-	-	568,424
Pharmaceutical accounts receivable, net	-	-	3,920,747	3,920,747
Lease receivable -current portion	1,785,152	6,673	-	1,791,825
Interest receivable -leases	15,685	1,606	-	17,291
Inventory	-	-	1,913,944	1,913,944
Due from UConn Medical Group	-	-	545,517	545,517
Due (to) from subsidiaries	(688,380)	569,446	118,934	-
Net investment in direct financing lease, current portion	-	4,112,746	-	4,112,746
Total Current Assets	<u>1,680,881</u>	<u>4,690,471</u>	<u>13,039,565</u>	<u>19,410,917</u>
Noncurrent Assets				
Deposits with vendors	-	-	7,583,784	7,583,784
Lease receivable, net of current portion	2,729,951	413,705	-	3,143,656
Net investment in direct financing lease, net of current portion	-	174,791,204	-	174,791,204
Property - right-to-use assets, net	-	-	357,275	357,275
Capital assets, net	23,202,714	-	33,035	23,235,749
Total Noncurrent Assets	<u>25,932,665</u>	<u>175,204,909</u>	<u>7,974,094</u>	<u>209,111,668</u>
Total Assets	<u>\$ 27,613,546</u>	<u>\$ 179,895,380</u>	<u>\$ 21,013,659</u>	<u>\$ 228,522,585</u>

See independent auditors' report.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

**SCHEDULE I - CONSOLIDATING STATEMENT OF NET POSITION
(CONTINUED)**

JUNE 30, 2022

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Liabilities and Net Position				
Current Liabilities				
Accounts payable and accrued expenses	\$ 52,282	\$ 340,891	\$ 3,876,103	\$ 4,269,276
Due to UConn Health – Malpractice fund	568,424	-	-	568,424
Due to UConn Health	-	68,970	2,470,949	2,539,919
Due to John Dempsey Hospital	-	-	12,212,558	12,212,558
Advances for construction	6,619	-	-	6,619
Interest payable	-	-	1,044	1,044
Security deposits	-	2,229	-	2,229
Lease liability, current portion	-	-	82,816	82,816
Loans payable, current portion	<u>1,779,887</u>	<u>6,093,205</u>	<u>-</u>	<u>7,873,092</u>
Total Current Liabilities	<u>2,407,212</u>	<u>6,505,295</u>	<u>18,643,470</u>	<u>27,555,977</u>
Noncurrent Liabilities				
Lease liability, net of current portion	-	-	294,696	294,696
Loans payable, net of current portion	<u>2,722,174</u>	<u>160,485,839</u>	<u>-</u>	<u>163,208,013</u>
Total Noncurrent Liabilities	<u>2,722,174</u>	<u>160,485,839</u>	<u>294,696</u>	<u>163,502,709</u>
Total Liabilities	<u>5,129,386</u>	<u>166,991,134</u>	<u>18,938,166</u>	<u>191,058,686</u>
Deferred Inflows of Resources				
Deferred inflows - right-to-use assets	<u>4,218,722</u>	<u>399,400</u>	<u>-</u>	<u>4,618,122</u>
Net Position				
Net investment in capital assets	18,700,653	12,324,906	12,798	31,038,357
Unrestricted (deficit)	<u>(435,215)</u>	<u>179,940</u>	<u>2,062,695</u>	<u>1,807,420</u>
Total Net Position	<u>18,265,438</u>	<u>12,504,846</u>	<u>2,075,493</u>	<u>32,845,777</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 27,613,546</u>	<u>\$ 179,895,380</u>	<u>\$ 21,013,659</u>	<u>\$ 228,522,585</u>

See independent auditors' report.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

**SCHEDULE II - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2022

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Operating Revenues				
Interest income - Right-to-use building	\$ 338,642	\$ 20,360	\$ -	\$ 359,002
Lease Revenue - Right-to-use building	1,786,753	16,856	-	1,803,609
Interest income from direct financing lease	-	10,382,334	-	10,382,334
Contract and other income	-	-	1,038,737	1,038,737
Pharmaceutical revenues, net	-	-	75,368,565	75,368,565
Total Operating Revenues	<u>2,125,395</u>	<u>10,419,550</u>	<u>76,407,302</u>	<u>88,952,247</u>
Operating Expenses				
Professional services	20,272	5,002	-	25,274
Internal contractual support	-	-	1,088,904	1,088,904
Outside agency per diems	-	-	5,781,714	5,781,714
Pharmaceuticals/medical supplies	-	-	69,855,291	69,855,291
Equipment and software leases	-	-	71,574	71,574
Insurance	-	-	750	750
Repairs and maintenance	-	-	1,377	1,377
Interest expense	337,479	8,151,541	12,338	8,501,358
Depreciation	753,300	-	3,042	756,342
Amortization - right-to-use assets	-	-	84,201	84,201
Other	-	39,123	11,390	50,513
Total Operating Expenses	<u>1,111,051</u>	<u>8,195,666</u>	<u>76,910,581</u>	<u>86,217,298</u>
Operating Income	<u>1,014,344</u>	<u>2,223,884</u>	<u>(503,279)</u>	<u>2,734,949</u>
Nonoperating Revenue (Expense)				
Loan servicing fee	(6,042)	(5,000)	-	(11,042)
Net Nonoperating (Expense) Revenue	<u>(6,042)</u>	<u>(5,000)</u>	<u>-</u>	<u>(11,042)</u>
Increase in Net Position	1,008,302	2,218,884	(503,279)	2,723,907
Net Position - Beginning of year (as previously stated)	17,257,136	10,270,601	2,578,772	30,106,509
Cumulative Effect of Implementing GASB 87	-	15,361	-	15,361
Net Position - Beginning of year (as restated 2021)	<u>17,257,136</u>	<u>10,285,962</u>	<u>2,578,772</u>	<u>30,121,870</u>
Net Position - End of year	<u>\$ 18,265,438</u>	<u>\$ 12,504,846</u>	<u>\$ 2,075,493</u>	<u>\$ 32,845,777</u>

See independent auditors' report.