THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

(With Management's Discussion and Analysis)

JUNE 30, 2019 AND 2018

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONTENTS

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 (Finance Corporation) as of and for the years ended June 30, 2019, 2018, and 2017. 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, and pharmacy management services to UConn Health and the State of Connecticut's Department of Corrections (DOC).

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 at June 30, 2019 and 2018, 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 and liabilities. 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) 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 and also provide more detailed data.

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 UMG, and provides pharmacy services to the DOC under a renewable 6-month contract, which became effective during fiscal year 2019.

FINANCIAL HIGHLIGHTS

The Finance Corporation's financial position at June 30, 2019, 2018, and 2017, included assets of \$224.9 million, \$221.6 million, and \$225.3 million, respectively, and liabilities of \$201.0 million, \$205.4 million, and \$211.6 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 year with operating income of \$7.7 million compared to operating income of \$2.5 million in the prior year. Current year income includes the effect of the Finance Corporation accrual of rent for the Munson Road property in the amount of \$2.9 million to be paid by UConn Health related parties. The current year also is the first year of operations of UHPSI, which had operating income of \$2.3 million. Total net position increased \$7.7 million in fiscal 2019, compared to an increase of \$2.5 million in fiscal 2018.

Summarized components of the Finance Corporation's Statement of Net Position as of June 30, 2019, 2018, and 2017 is presented below.

	2019	2018	2017
		(In thousands)	
Summary of assets and liabilities at June 30:			
Current assets	$ 13,474	$ 6,233	$ 6,918
Net investment in direct financing lease, net of current portion	185,951	189,121	191,395
Capital assets, net	25,468	26,216	26,969
Total assets	$ 224,893	$ 221,570	$ 225,282
Current liabilities	$ 13,950	$ 10,234	$ 10,054
Long-term liabilities	187,037	195,156	201,566
Total liabilities	$ 200,987	$ 205,390	$ 211,620
Net investment in capital assets	$ 22,245	$ 19,923	$ 18,560
Unrestricted (deficit)	1,661	(3,743)	(4,898)
Total net position	23,906	16,180	13,662
Total liabilities and net position	$ 224,893	$ 221,570	$ 225,282

FINANCIAL HIGHLIGHTS (CONTINUED)

Changes in net position represent the operating activity of the Finance Corporation, primarily composed of revenues and expenses associated with real estate transactions and the operations of UHPSI and are summarized below for the years ended June 30, 2019, 2018, and 2017:

	2019	2018	2017
		(In thousands)	
Summary of revenues, expenses, and nonoperating expenses for the year ended June 30:			
Operating revenues	$ 44,785	$ 13,248	$ 13,398
Operating expenses	(37,048)	(10,719)	(10,975)
Nonoperating expenses	(11)	(11)	(11)
Increase in net position	$ 7,726	$ 2,518	$ 2,412

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 2019 amounts compared to fiscal 2018.

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets included the following:

- *Inventory* – increased from June 30, 2018 to June 30, 2019 by approximately $1.6 million, which represents pharmaceutical inventory for the UHPSI.

- *Contract receivables* – increased from June 30, 2018 to June 30, 2019 by approximately $2.6 million due to DOC receivables under its contract with UHPSI.

- *Net investment in direct financing lease* – decreased from June 30, 2018 to June 30, 2019 by approximately $3.0 million due to current year payment activity.

SUMMARY OF ASSETS AND LIABILITIES (CONTINUED)

Changes in liabilities included the following:

- *Due to/from related parties* – increased from June 30, 2018 to June 30, 2019 by approximately $1.5 million due to cash, inventory, and operating expenses advanced to UHPSI to facilitate first year operations from UConn Health.

- *Notes payable* – decreased from June 30, 2018 to June 30, 2019 by approximately $6.4 million due to paying the scheduled payments during the fiscal year.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues

Total operating revenues increased from June 30, 2018 to June 30, 2019 by approximately $31.5 million or 238%.

- *Contract and other income* – increased by approximately $28.8 million due to the first year of operations of UHPSI.

- *Rental income* – increased by approximately $2.9 million or 135% due to the final settlement of the Munson Road rent charged to UConn Health, UMG and the Hospital.

Operating expenses

Total operating expenses increased from June 30, 2018 to June 30, 2019 by approximately $26.3 million or 246%.

- *Pharmaceuticals / medical supplies* – increased by approximately $21.8 million due to the first year of operations of UHPSI. Pharmaceuticals purchased were resold to DOC and other parties, and recorded as contract and other income on the statement of revenues, expenses and changes in net position.

- *Internal contractual support* – increased by approximately $3.8 million due to the first year of operations of UHPSI. These are pharmacy personnel costs allocated from UConn Health.

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 2 and 5.

The OP construction was completed in 2019. The project finished ahead of budget and Circle Road Corporation is in the process of closing out the additional funds held in trust to be used for additional site work and minor improvements. The Finance Corporation continues to rent 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, 2019 and 2018, the Finance Corporation made all regularly scheduled payments on the mortgage thereby reducing the principal amount of secured mortgage on the OP by $5,028,886 and $4,793,230, respectively. For additional information on debt related activities, see Note 3.

The Finance Corporation continues to own and rent the UConn Musculoskeletal Institute property to UConn Health. For the years ended June 30, 2019 and 2018, 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 $1,382,118 and $1,297,429, respectively.

RELATED PARTIES

During fiscal year 2019, UHPSI received initial financing and inventory from UConn Health totaling $5.4 million. During fiscal year 2019, UHPSI was allocated the cost of pharmacy personnel and other operating expenses totaling approximately $3.8 million. UHPSI repaid approximately $2.3 million to UConn Health for these costs during fiscal year 2019.

There is no outstanding debt on the Munson Road property. For 2019, the Finance Corporation accrued rent revenue and allocated rent expense to UConn Health, the Hospital and UMG in the amount of $2.9 million. This amount represents the final settlement of balances from the Munson Road balloon payment made in fiscal year ended 2011.

In 2019, UHPSI was repaid $692,406 related to operating expenses paid on behalf of UConn Health in 2018. For additional information on related parties, see Note 4.

FISCAL YEAR 2020 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 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 operations.

The economic position of the Finance Corporation is closely tied to that of UConn Health's clinical entities serviced by the Finance Corporation. Through various rental agreements, UConn Health provides funding which enables the Finance Corporation to make its required debt and principal payments.

As we look forward to fiscal year 2020, UConn Health is maintaining its focus on transferring potential into possible. Our vibrant state of the art facilities continue to attract patients and high quality providers to campus.

Clinically, healthcare reform and shifting regional and national dynamics continue to change the way hospitals serve their communities. In response, UConn Health actively explored the possibility of a public private partnership during fiscal 2019. Although we did not receive a response through our Solicitation of Interest that met all objectives, we are still reviewing and remain vigilant and optimistic towards finding a partner that will bolster the many improvements made over the past several years and enhance our strength going forward. If such a partner is not found, management continues to believe that our best in market campus, strong and growing medical staff, and consistent marketing voice in the community provide UConn Health with the tools it needs to compete effectively in the marketplace.

Throughout fiscal year 2019, UConn Health focused much of its clinical and information technology attention and resources on adopting, strengthening, and streamlining its state-of-the-art electronic health system, EPIC. UConn Health successfully launched EPIC in the fourth quarter of fiscal 2018. The installation resulted in a new medical records system throughout UConn Health, linking patients via a single electronic health record (EHR) and positions the Hospital for compliance with the third stage of meaningful use requirements. This EHR allows for sharing and receiving of the latest medical history of patients being cared for both at UConn Health and at other institutions, while providing its clinicians, researchers and educators with a clinical platform to support their ongoing missions. This endeavor created additional opportunities to improve revenue cycle related operations. After the initial go-live phase, UConn Health has turned its attention towards optimization of the system, seeking out the operational and financial efficiencies that come with a modern, robust system.

FISCAL YEAR 2020 OUTLOOK (CONTINUED)

Continued economic pressures within the State of Connecticut (State) are causing some instability in the predictability of State support across UConn Health. Leadership remains diligent on seeking out continued, appropriate cost reductions while protecting quality. Additional cuts in State support, beyond those in the original passed budget, are possible depending on how the State's fiscal picture develops during the upcoming year.

UHPSI provides pharmaceuticals to both UConn Health clinical (non-hospital) practices and to the DOC. Services provided to the DOC are done under a renewable six month contract. The State has recently selected a new pharmacy provider. As a result, the contract with the DOC for pharmacy services has been terminated as of September 30, 2019.

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.

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
University of Connecticut Health Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Connecticut Health Center Finance Corporation (Finance Corporation or Company), a component unit of the State of Connecticut, as of and for the years ended June 30, 2019 and 2018, and the related notes to the consolidated financial statements, which collectively comprise Finance Corporation's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Finance Corporation as of June 30, 2019 and 2018, and the consolidated results of their operations and changes in net position, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 on pages 1 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Finance Corporation's basic financial statements. The consolidating information in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The consolidating information in Schedules I and II is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2019 consolidating information in Schedules I and II is fairly stated, in all material respects, in relation to the basic 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 December 5, 2019 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company'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 Company's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
December 5, 2019

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash	$ 4,889,825	$ 1,447,727
Malpractice fund	357,022	608,177
Inventory	1,594,912	--
Contract receivables	2,636,637	--
Construction escrow account	31,774	529,145
Due from UConn Health	--	619,086
Due from UConn Medical Group	757,388	--
Net investment in direct financing lease, current portion (note 5)	3,206,478	3,028,588
Total Current Assets	13,474,036	6,232,723
Noncurrent Assets		
Net investment in direct financing lease, net of current portion (note 5)	185,950,600	189,121,092
Capital assets, net (note 2)	25,468,165	26,215,912
Total Noncurrent Assets	211,418,765	215,337,004
Total Assets	$ 224,892,801	$ 221,569,727

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, 2019 AND 2018

	2019	2018
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,568,583	$ 1,199,827
Due to UConn Health - Malpractice fund	357,022	608,177
Due to UConn Health	2,183,218	--
Due to John Dempsey Hospital, current portion	3,071,615	2,000,000
Advances for construction	6,619	6,619
Security deposits	14,329	8,279
Loans payable, current portion (note 3)	6,748,463	6,411,004
Total Current Liabilities	13,949,849	10,233,906
Noncurrent Liabilities		
Due to John Dempsey Hospital, net of current portion	1,373,051	2,743,408
Loans payable, net of current portion (note 3)	185,663,570	192,412,033
Total Noncurrent Liabilities	187,036,621	195,155,441
Total Liabilities	200,986,470	205,389,347
Net Position		
Net investment in capital assets	22,244,984	19,923,363
Unrestricted (deficit)	1,661,347	(3,742,983)
Total Net Position	23,906,331	16,180,380
Total Liabilities and Net Position	$ 224,892,801	$ 221,569,727

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

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating Revenues		
Rental income	$ 5,005,439	$ 2,132,406
Interest income from direct financing lease	10,947,964	11,115,984
Contract and other income (net of discounts of $265,002)	28,831,774	--
Total Operating Revenues	44,785,177	13,248,390
Operating Expenses		
Professional services	44,150	33,475
Internal contractual support	3,795,588	--
Outside agency per diems	480,996	--
Pharmaceuticals/medical supplies	21,781,112	--
Rent	128,100	--
Equipment and software leases	279,090	--
Repairs and maintenance	44,164	--
Interest expense	9,568,421	9,870,876
Depreciation	753,506	753,299
Other	173,056	61,642
Total Operating Expenses	37,048,183	10,719,292
Operating Income	7,736,994	2,529,098
Nonoperating Expenses		
Loan servicing fees	(11,043)	(11,042)
Total Nonoperating Expenses	(11,043)	(11,042)
Increase in Net Position	7,725,951	2,518,056
Net Position - Beginning	16,180,380	13,662,324
Net Position - Ending	$ 23,906,331	$ 16,180,380

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

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Cash paid to suppliers, contractors and others	$ (34,336,575)	$ (9,956,179)
Cash received for rental income	2,127,143	2,132,406
Cash received for contract and other income	24,330,633	--
Cash received from related parties	3,571,284	2,350
Cash paid for administrative expenses	(26,900)	(37,121)
Net Cash Used in Operating Activities	(4,334,415)	(7,858,544)
Cash Flows from Investing Activities		
Payments for purchase of capital assets	(276,863)	(843,344)
Net Cash Used in Investing Activities	(276,863)	(843,344)
Cash Flows from Capital Financing Activities		
Direct financing lease payments received (including $10,947,964 and $11,115,984 of interest, respectively)	13,976,552	13,976,552
Cash received from UConn Health in support of Outpatient Pavilion construction	--	20,878
Transfers from construction escrow account	498,871	1,950,279
Repayments of capital debt	(6,411,004)	(6,090,659)
Loan servicing fees	(11,043)	(11,042)
Net Cash Provided by Capital Financing Activities	8,053,376	9,846,008
Net Increase in Cash	3,442,098	1,144,120
Cash - Beginning	1,447,727	303,607
Cash - Ending	$ 4,889,825	$ 1,447,727

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, 2019 AND 2018

	2019	2018
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating income	$ 7,736,994	$ 2,529,098
Depreciation	753,506	753,299
Direct financing lease interest payments received	(10,947,964)	(11,115,984)
Changes in operating assets and liabilities:		
Inventory	(1,594,912)	--
Contract receivables	(2,636,637)	--
Due from UConn Health	3,035,922	2,350
Due from UConn Medical Group	(757,388)	--
Accounts payable and accrued expenses,		--
excluding payables for capital assets	368,756	(27,307)
Due to John Dempsey Hospital	(298,742)	--
Security deposits	6,050	--
Net Cash Used in Operating Activities	$ (4,334,415)	$ (7,858,544)
Schedule of Non-Cash Financing Transactions		
Change in mortgage proceeds held by Trustee in construction escrow account	$ 497,371	$ 1,950,279

As of June 30, 2018, the Finance Corporation had construction invoices payable of $75,246 that were included in accounts payable, accrued expenses and due to UConn Health. As of June 30, 2019, the Finance Corporation did not have any construction invoices payable.

As of June 30, 2018, the Finance Corporation, combined with UHPSI, had invoices payable of $692,406 included in accounts payable and accrued expenses related to purchases made on behalf of UConn Health that were included in due from UConn Health. As of June 30, 2019, the Finance Corporation did not have any invoices payable on behalf of UConn Health.

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

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), University Dentists, and Correctional Managed Health Care (CMHC) (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, in addition to negotiate joint ventures, shared service, and other agreements for all of the entities, as well as process malpractice claims on behalf of the University of Connecticut Health Center (UConn Health), the Hospital, UConn Medical Group, and University Dentists.

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 designee. 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.

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

REPORTING ENTITY (CONTINUED)

During fiscal year 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, UConn Medical Group, and the State of Connecticut Department of Corrections (DOC). 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 (the Member) is the Finance Corporation. 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. For 2018, activity was minimal, therefore, nominal costs of $1,402 were included with the Finance Corporation in the consolidating schedules presented in the supplemental information and have been included as a transfer from the Finance Corporation to UHPSI in the consolidating statements of revenues, expenses, and changes in net assets for 2019.

The expenses reported in the consolidated statements of revenues, expenses, and changes in net position include allocations from UConn Health for salary and fringe 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 assets.

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.

For presentation purposes, activity for Central Administrative Services (CAS), Research Finance and Dental Clinics are combined under UConn Health.

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

BASIS OF PRESENTATION

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

PROPRIETARY FUND ACCOUNTING

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

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.

CASH

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

CONTRACT REVENUE

Contract revenue is primarily for pharmaceuticals provided to the DOC under a renewable, 6 month contract which became effective during fiscal year 2019. Revenue is recorded on the accrual basis of accounting in the period the related services are rendered.

INVENTORY

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

DESCRIPTION OF LEASING ARRANGEMENTS

The Finance Corporation has leasing arrangements with UConn Health for the UConn Musculoskeletal Institute and the Outpatient Pavilion (OP) building and associated equipment. The UConn Musculoskeletal Institute is leased under a year to year operating lease. Effective

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

DESCRIPTION OF LEASING ARRANGEMENTS, (CONTINUED)

June 30, 2019, rent was charged for 16 Munson Road (Munson Road) to UConn Health, the Hospital and UConn Medical Group in the amount of $2.9 million. Such rent represented the final amounts owed related to the Munson Road mortgage balloon payment made in fiscal year 2011.

The OP lease, effected through the Circle Road Corporation, is a direct financing lease for both the OP building and 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 will review the estimated residual value of property leased under the direct financing lease on an annual basis. See note 5 for additional information.

RENTAL INCOME AND INTEREST INCOME

Rental income on operating leases is recognized on a time basis over the rental 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 by Due to UConn Health 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 it holds an amount estimated for upcoming malpractice fund liabilities in its account. The claim liability is reflected on UConn Health’s financial statements.

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

CAPITAL 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.

CONSTRUCTION ESCROW ACCOUNT

The construction escrow account represents 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 has not yet been drawn down fully by the Finance Corporation for construction expenses. Refer to note 3 for additional information related to the debt.

ADVANCES FOR CONSTRUCTION

Advances for construction in the amount of $6,619 as of June 30, 2019 and 2018, 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.

NET POSITION

Net position is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and 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 AND UPCOMING ACCOUNTING PRONOUNCEMENTS

In 2019, the Finance Corporation implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). Under this Statement, a government should disclose summarized information about amounts of unused lines of credit, assets pledged as collateral for debt, terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with

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

RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS (CONTINUED)

finance-related consequences, and subjective acceleration clauses. The note disclosures should separate information regarding direct borrowings and direct placements of debt from other debt. In adopting GASB 88, the Finance Corporation disclosed additional information regarding notes from direct borrowing regarding future interest on principal payments, assets as security for the borrowings, and provisions for events of default.

In 2019, the Finance Corporation implemented GASB Statement No. 83, *Certain Asset Retirement Obligations,* which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. Implementation of this standard did not have a material impact on the Finance Corporation.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments. Under this Statement, a lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. The Finance Corporation is currently evaluating the impact this standard will have on its consolidated financial statements.

NOTE 2 – CAPITAL ASSETS

Capital assets as of June 30, 2019 and 2018, consisted of the following:

	2019	2018
Buildings	$ 29,730,870	$ 29,730,870
Land	6,593,084	6,593,084
Equipment	18,681	20,998
	36,342,635	36,344,952
Less accumulated depreciation	10,874,470	10,129,040
Capital assets, net	$ 25,468,165	$ 26,215,912

As of June 30, 2019, the main building and garage of the OP were substantially complete. The remaining balance in the custodial construction escrow account was $31,774 as of June 30, 2019.

As described in note 1, the OP is leased to UConn Health under the terms of a direct financing lease. During the year ended June 30, 2019, additional costs were added to the direct financing lease to bring the total costs to $200,915,634. The cumulative costs incurred as of June 30, 2018 were $200,879,648.

Capital assets and depreciation activity for the years ended June 30, 2019 and 2018 was as follows:

	2018	Additions	Deductions	2019
Buildings	$ 29,730,870	$ --	$ --	$ 29,730,870
Land	6,593,084	--	--	6,593,084
Equipment	20,998	5,759	(8,076)	18,681
Less: accumulated depreciation - Buildings	(10,108,042)	(753,300)	--	(10,861,342)
Less: accumulated depreciation - Equipment	(20,998)	(206)	8,076	(13,128)
	$ 26,215,912	$ (747,747)	$ --	$ 25,468,165

NOTE 2 – CAPITAL ASSETS (CONTINUED)

	2017	Additions	Deductions	2018
Buildings	$ 29,730,870	$ --	$ --	$ 29,730,870
Land	6,593,084	--	--	6,593,084
Equipment	20,998	--	--	20,998
Less: accumulated depreciation - Buildings	(9,354,743)	(753,299)	--	(10,108,042)
Less: accumulated depreciation - Equipment	(20,998)	--	--	(20,998)
	$ 26,969,211	$ (753,299)	$ --	$ 26,215,912

NOTE 3 – NONCURRENT LIABILITIES

The Finance Corporation has a loan agreement with Capital Lease Funding (transferred to KeyBank Real Estate Capital (KeyBank) in August 2018 from Wells Fargo Bank N.A. (Wells Fargo)), 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 as of June 30, 2019 and 2018, respectively are as follows:

	June 30, 2018 Balance	Additions	Repayments	June 30, 2019 Balance	Amounts due within 1 year
Business-type activities:					
Notes from Direct Borrowings -					
Capital Lease Funding (KeyBank)	$ 10,595,782	$ --	$ (1,382,118)	$ 9,213,664	$ 1,472,336
TIAA	188,227,255	--	(5,028,886)	183,198,369	5,276,127
	$ 198,823,037	$ --	$ (6,411,004)	$ 192,412,033	$ 6,748,463

NOTE 3 – NONCURRENT LIABILITIES (CONTINUED)

	June 30, 2017 Balance	Additions	Repayments	June 30, 2018 Balance	Amounts due within 1 year
Business-type activities:					
Notes from Direct Borrowings -					
Capital Lease Funding (Wells Fargo)	$ 11,893,211	$ --	$ (1,297,429)	$ 10,595,782	$ 1,382,118
TIAA	193,020,485	--	(4,793,230)	188,227,255	5,028,886
	$ 204,913,696	$ --	$ (6,090,659)	$ 198,823,037	$ 6,411,004

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

	2019	2018
Secured mortgage - Capital Lease Funding (KeyBank), principal and interest payments began January 2004 and continue until November 2024, with interest at 6.34%	$ 9,213,664	$ 10,595,782
Secured mortgage - TIAA, 25 year, 4.809% coupon. Principal and interest payments began on April 15, 2015 and will continue until March 15, 2040.	183,198,369	188,227,255
	$ 192,412,033	$ 198,823,037

The Finance Corporation's outstanding notes from direct borrowings related to business-type activities of $192,412,033 and $198,823,037 as of June 30, 2019 and 2018, 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 if the Finance Corporation has not made a payment when due.

As of June 30, 2019, the Finance Corporation was not in compliance with certain insurance provisions related to the OP mortgage with TIAA. The Finance Corporation has received a waiver for such violations. Refer to note 6 for additional information related to this waiver.

NOTE 3 – NONCURRENT LIABILITIES (CONTINUED)

Debt service requirements on long-term debt at June 30, 2019 are as follows:

	Business-Type Activities	
	Notes from Direct Borrowings	
Year Ending June 30,	Principal	Interest
2020	$ 6,748,463	$ 9,236,576
2021	7,103,967	8,881,072
2022	7,478,497	8,506,542
2023	7,873,091	8,111,949
2024	8,288,840	7,696,198
2025-2029	37,825,063	32,868,441
2030-2034	47,033,459	22,820,800
2035-2039	59,789,420	10,064,839
2040	10,271,233	206,907
	$ 192,412,033	$ 108,393,324

The Finance Corporation recorded interest expense of $9,568,421 and $9,870,876, respectively, during the years ended June 30, 2019 and 2018.

NOTE 4 – 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. As disclosed in Note 1, for the year ended June 30, 2019, rent of $2.9 million was charged to UConn Health, the Hospital, and UMG related to occupancy of Munson Road. The amounts charged were approximately $2.1 million, $484,000, and $308,000, respectively.

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,

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

including the Hospital and UConn Medical Group. The amounts allocated to each of UConn Heath's internal business units is determined based on the square footage and is subject to change.

Payments to be received under these agreements over the next five years and thereafter are estimated to be as follows:

Year ending June 30,	Outpatient Pavilion (a)	UConn Musculoskeletal Institute
2020	$ 13,975,852	$ 2,020,230
2021	13,975,852	2,020,230
2022	13,975,852	2,020,230
2023	13,975,852	2,020,230
2024	13,975,852	2,020,230
Thereafter	220,119,667	841,762
	$ 289,998,927	$ 10,942,912

(a) Outpatient Pavilion amounts are due under a non-cancellable direct financing lease with UConn Health. Additional details can be found in note 5.

As of June 30, 2019, the amount due from UConn Health of approximately $2.2 million was reduced by the timing difference of a payment of $2.6 million from DOC. The amount was received by UConn Health, but not passed to UHPSI as of June 30, 2019. As a result, the total amount due to UConn Health at June 30, 2019 was approximately $4.8 million.

During fiscal year 2019, UHPSI received financing advances and inventory from UConn Health. UHPSI also purchased pharmacy staffing and other products/services from UConn Health, and sold pharmaceuticals to UConn Health. UHPSI received approximately $692,000 from UConn Health during 2019 for amounts paid on its behalf in the prior year. At year-end, these transactions resulted in an increase in payables to UConn Health of $6.9 million.

During 2019, UHPSI incurred charges of approximately $962,000 from the Hospital for drug purchases for the DOC agreement. Approximately $778,000 of this amount was repaid as of June 30, 2019.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

Beginning in fiscal year 2019, UHPSI provided pharmaceuticals to UMG in the amount of $2.4 million. As of June 30, 2019, UMG repaid $1.9 million to UHPSI.

As of June 30, 2019 and 2018, the Finance Corporation had unpaid advances from the Hospital provided to facilitate the OP construction. Advances are non-interest bearing.

As of June 30, 2019 and 2018, the Finance Corporation had the following amounts (due to) due from related parties:

	2019	2018
Due to John Dempsey Hospital	$ (4,444,666)	$ (4,743,408)
Due to UConn Health - Malpractice fund	(357,022)	(608,177)
(Due to) Due from UConn Health	(2,183,218)	619,086
Due from UConn Medical Group	757,388	--

NOTE 5 – 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, but 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, 2019 and 2018.

	2019	2018
Net minimum lease payments receivable	$ 290,013,453	$ 303,990,005
Estimated residual value of leased property (unguaranteed)	65,861,269	65,861,269
Less unearned income	(166,717,644)	(177,701,594)
Net investment in direct financing lease	$ 189,157,078	$ 192,149,680

NOTE 5 – INVESTMENT IN DIRECT FINANCING LEASE (CONTINUED)

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, 2019 and 2018.

	2019	2018
Building	$ 182,589,290	$ 182,419,251
Equipment	18,221,993	18,356,046
Art	104,351	104,351
	$ 200,915,634	$ 200,879,648

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, net.

NOTE 6 – SUBSEQUENT EVENTS

The Finance Corporation has evaluated subsequent events through December 5, 2019, which represents the date the financial statements were available to be issued. The following matters were noted:

The State selected a new pharmacy provider. As a result, the contract with the DOC for pharmacy services terminated as of September 30, 2019. For the year ended June 30, 2019, total revenue from this contract totaled approximately $28.8 million and related expenses totaled approximately $26.3 million. For fiscal year 2020, the impact of this contract termination is estimated to be a reduction of UHPSI's operating income by approximately $2.5 million. The Company does not expect to write off any assets or record any adjustments to the amounts recorded at and for the fiscal period ended June 30, 2019 related to the termination of this contract.

In September 2019, UConn Health, the Hospital, and UMG paid $2,886,565 to the Finance Corporation related to occupancy of Munson Road that was accrued at June 30, 2019, as described in note 4.

NOTE 6 – SUBSEQUENT EVENTS (CONTINUED)

As of June 30, 2019, the Finance Corporation was not in compliance with certain insurance provisions related to the mortgage on the OP. As of November 5, 2019, the Finance Corporation obtained a waiver for this violation to remove the requirement that UConn Health or Circle Road Corporation maintain business interruption insurance and to waive the related default (as defined in the Declaration of Trust, dated as of December 3, 2012, by Wells Fargo Trust Company, National Association, formerly known as Wells Fargo Bank Northwest, National Association, with respect to the loan), for the time period commencing on the date that construction ended on the OP through June 30, 2020. The Finance Corporation subsequently remedied its insurance to include all required coverages.

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

MARCUM
ACCOUNTANTS ▲ ADVISORS

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
University of Connecticut Health Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The University of Connecticut Health Center Finance Corporation (the Company), which comprise the consolidated statement of net position as of June 30, 2019, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Hartford, CT
December 5, 2019

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

SCHEDULE I – CONSOLIDATING STATEMENT OF NET POSITION

JUNE 30, 2019

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Assets				
Current Assets				
Cash	$ 1,261,411	$ 481,400	$ 3,147,014	$ 4,889,825
Malpractice fund	357,022	--	--	357,022
Inventory	--	--	1,594,912	1,594,912
Contract receivables	--	--	2,636,637	2,636,637
Construction escrow account	--	31,774	--	31,774
Due from UConn Medical Group	307,785	--	449,603	757,388
Net investment in direct financing lease, current portion	--	3,206,478	--	3,206,478
Total Current Assets	1,926,218	3,719,652	7,828,166	13,474,036
Noncurrent Assets				
Net investment in direct financing lease, net of current portion	--	185,950,600	--	185,950,600
Capital assets, net	25,462,612	--	5,553	25,468,165
Total Noncurrent Assets	25,462,612	185,950,600	5,553	211,418,765
Total Assets	$ 27,388,830	$ 189,670,252	$ 7,833,719	$ 224,892,801

See independent auditors' report.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

SCHEDULE I – CONSOLIDATING STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2019

	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	$ 70,352	$ 370,583	$ 1,127,648	$ 1,568,583
Due to UConn Health – Malpractice fund	357,022	--	--	357,022
Due (to) / from UConn Health	(2,094,987)	74,357	4,203,848	2,183,218
Due to John Dempsey Hospital, current portion	2,886,565	--	185,050	3,071,615
Advances for construction	6,619	--	--	6,619
Security deposits	--	14,329	--	14,329
Loans payable, current portion	1,472,336	5,276,127	--	6,748,463
Total Current Liabilities	2,697,907	5,735,396	5,516,546	13,949,849
Noncurrent Liabilities				
Due to John Dempsey Hospital, net of current portion	1,373,051	--	--	1,373,051
Loans payable, net of current portion	7,741,328	177,922,242	--	185,663,570
Total Noncurrent Liabilities	9,114,379	177,922,242	--	187,036,621
Total Liabilities	11,812,286	183,657,638	5,516,546	200,986,470
Net Position				
Net investment in capital assets	16,248,948	5,990,483	5,553	22,244,984
Unrestricted (deficit)	(672,404)	22,131	2,311,620	1,661,347
Total Net Position	15,576,544	6,012,614	2,317,173	23,906,331
Total Liabilities and Net Position	$ 27,388,830	$ 189,670,252	$ 7,833,719	$ 224,892,801

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, 2019

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Operating Revenues				
Rental income	$ 4,906,795	$ 98,644	$ --	$ 5,005,439
Interest income from direct financing lease	--	10,947,964	--	10,947,964
Contract and other income (net of discounts of $265,002)	--	--	28,831,774	28,831,774
Total Operating Revenues	4,906,795	11,046,608	28,831,774	44,785,177
Operating Expenses				
Professional services	39,900	4,250	--	44,150
Internal contractual support	--	--	3,795,588	3,795,588
Outside agency per diems	--	--	480,996	480,996
Pharmaceuticals/medical supplies	--	--	21,781,112	21,781,112
Rent	--	--	128,100	128,100
Equipment and software leases	1,187	--	277,903	279,090
Repairs and maintenance	--	--	44,164	44,164
Interest expense	636,531	8,931,890	--	9,568,421
Depreciation	753,300	--	206	753,506
Other	--	167,926	5,130	173,056
Total Operating Expenses	1,430,918	9,104,066	26,513,199	37,048,183
Operating Income	3,475,877	1,942,542	2,318,575	7,736,994
Nonoperating Expenses				
Loan servicing fee	(6,043)	(5,000)	--	(11,043)
Total Nonoperating Expenses	(6,043)	(5,000)	--	(11,043)
Gain before Transfers	3,469,834	1,937,542	2,318,575	7,725,951
Transfers from Finance Corp Unrestricted	1,402	--	(1,402)	--
Increase in Net Position	3,471,236	1,937,542	2,317,173	7,725,951
Net Position - Beginning	12,105,308	4,075,072	--	16,180,380
Net Position - Ending	$ 15,576,544	$ 6,012,614	$ 2,317,173	$ 23,906,331

See independent auditors' report.