# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

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

## JUNE 30, 2019 AND 2018

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

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# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the financial position and activities of the University of Connecticut Health Center UConn Medical Group (UConn Medical Group or UMG) as of and for the years ended June 30, 2019, 2018, and 2017. UMG is operated as a separate, identifiable unit (included in the 12018 fund) of the University of Connecticut Health Center (UConn Health). The 12018 fund represents the operating fund for all the entities that comprise UConn Health. UMG has access to the funds available in the 12018 fund to fund its operations. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which both follow this section.

UMG's clinical operations are modeled, in part, on private group practices and include approximately 470 providers practicing in a wide variety of specialties. UMG's operation is an essential element for the education and training of medical students that enables the University of Connecticut School Of Medicine to accomplish its mission. Medical students, for example, learn diagnosis and treatment by training side-by-side with faculty clinicians as these doctors see patients. Funds transferred from UConn Health support this educational mission.

On April 28, 2018, UConn Health installed the EPIC Medical Record/Revenue Cycle Management System (EPIC) in all clinical locations. EPIC is a fully integrated CMS - certified electronic health record system (EHR) and is one of the most widely used EHR in the U.S. It uses digital technologies to integrate patient medical information to ensure a highly personalized experience for UConn Health's patients and help clinicians better coordinate medical care-safely and securely.

UConn Health focused its 2019 efforts on system stabilization, including streamlining operations and making required system fixes to allow it to get the most out of its new system. The extensive reach of the new system, combined with the number of subsystems that were replaced during the EPIC installation, has proven to be an intensive effort which is just starting to show tangible progress. The overall system has achieved stability while individual modules and components continue to be refined as separate projects. In the upcoming year, we will continue our focus on stabilization, but will also move into both upgrade and system optimization phases.

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows) present the financial position of UMG at June 30, 2019 and 2018, and the results of its operations and financial activities for the years then ended. These financial statements report information about UMG using accounting methods similar to those used by private-sector companies. The statements of net position include all of UMG's assets, liabilities and deferred inflows and outflows. The 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 when cash is received or paid).

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

These financial statements report UMG's net position and how it has changed. Net position (the difference between assets and liabilities adjusted for deferred outflows and inflows) is one way to measure financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as operating, investing, noncapital financing activities, and capital and related financing activities. The financial statement footnotes include notes that explain information in the financial statements and provide more detailed data.

## FINANCIAL HIGHLIGHTS

UMG's financial position at June 30, 2019 consisted of assets of approximately $33.0 million, deferred outflows of approximately $68.0 million, liabilities of approximately $372.2 million (of which $343.0 million is related to GASB Statements No. 68 and 75), and deferred inflows of approximately $11.2 million. UMG's financial position at June 30, 2018 consisted of assets of approximately $30.7 million, deferred outflows of approximately $54.2 million, liabilities of approximately $351.6 million, and deferred inflows of approximately $4.8 million. Net position, which represents the residual interest in UMG's assets and deferred outflows after liabilities and deferred inflows are deducted, decreased by approximately $11.1 million from fiscal year 2018 to a net deficit position of approximately $282.5 million as of June 30, 2019.

UMG finished the year with an operating loss of $83.7 million compared to an operating loss of $73.1 million in the prior year. Current year losses include the effect of UMG recording its pro-rata share of expenses under GASB Statements No. 68 and 75 as discussed in notes 2 and 8. These expenses reflect changes to the pension and other post employment benefits (OPEB) plans on a State level. UMG received net transfers from UConn Health of $72.8 million and $63.3 million in 2019 and 2018, respectively. Current year transfers included $44.4 million from UConn Health as capital support and $27.6 million related to fringe benefit support. Prior year transfers included $24.4 million of fringe benefit recoveries related to support services paid against the UConn Health's general fund allotment and $38.6 million of transfers from UConn Health, of which $19.6 million related to the implementation of UMG's EPIC system. Total net position decreased by approximately $11.1 million in fiscal 2019, compared to a decrease of approximately $192.6 million in fiscal 2018. The prior year decrease was largely the result of UMG's GASB Statements No. 75 implementation. The decrease exclusive of this was $12.2 million.

### SUMMARY OF ASSETS AND LIABILITIES

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

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| | | *(in thousands)* | |
| Summary of assets, liabilities and net position at June 30: | | | |
| Current assets | $ 15,126 | $ 9,552 | $ 11,680 |
| Capital and intangible assets, net | 17,868 | 21,194 | 21,934 |
| Total assets | $ 32,994 | $ 30,746 | $ 33,614 |
| Deferred outflows for pensions | 45,044 | 44,676 | 60,170 |
| Deferred outflows for OPEB | 22,911 | 9,559 | -- |
| Total deferred outflows | $ 67,955 | $ 54,235 | $ 60,170 |
| Current liabilities | $ 23,959 | $ 26,440 | $ 25,723 |
| Noncurrent liabilities | 348,268 | 325,201 | 146,859 |
| Total liabilities | 372,227 | 351,641 | 172,582 |
| Deferred inflows pensions | $ 471 | $ -- | $ -- |
| Deferred inflows for OPEB | 10,777 | 4,754 | -- |
| Total deferred inflows | $ 11,248 | $ 4,754 | $ -- |
| Net investment in capital assets | $ 17,868 | $ 21,194 | $ 21,933 |
| Unrestricted deficit | (300,394) | (292,608) | (100,731) |
| Total net position | $ (282,526) | $ (271,414) | $ (78,798) |

## SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS – ASSETS AND LIABILITIES

In this section, UMG explains the reasons for financial statement items with significant variances relating to fiscal 2019 amounts compared to fiscal 2018 amounts.

Changes in assets included the following:

- *Patient accounts receivable, net* – increased by approximately $1.9 million from June 30, 2018 to June 30, 2019 due to the conversion to EPIC, which improved charge capture and lengthened collections periods in the short term.

- *Inventory* – increased by approximately $879,000 from June 30, 2018 to June 30, 2019, due to the implementation of a new pharmaceutical dispensing and tracking system, Pyxis. Pyxis machines allow for secure storage of pharmaceuticals in the departments. In 2019, UMG added more departments to the Pyxis system, resulting in increased inventory.

- *Contract and other receivables* – increased by approximately $2.8 million from June 30, 2018 to June 30, 2019 due to an anticipated Medicare DSS Supplemental payment for the fourth quarter.

Changes in liabilities included the following:

- *Accounts payable and accrued expenses* – decreased by approximately $1.4 million from June 30, 2018 to June 30, 2019 due to payments for contractor support services for EPIC that were accrued for during the EPIC go-live phase and paid in 2019.

- *Accrued payroll* – increased by approximately $1.7 million from June 30, 2018 to June 30, 2019. The payroll accrual is based on a payroll factor, which is calculated based on the number of days remaining as unpaid at the end of the fiscal year.

- *OPEB liabilities* – increased by approximately $13.1 million from June 30, 2018 to June 30, 2019 due to changes in UMG's OPEB costs. This represents UMG's proportional share of the State's OPEB as actuarially determined based on UMG's percentage of overall contributions.

## SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Summarized components of UMG's Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2019, 2018, and 2017 are presented below:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| | | *(in thousands)* | |
| Summary of revenues, expenses and transfers for the year ended June 30: | | | |
| Operating revenues | $ 127,992 | $ 110,876 | $ 104,051 |
| Operating expenses | 211,724 | 183,977 | 177,816 |
| Loss from operations | (83,732) | (73,101) | (73,765) |
| Nonoperating expenses, net | (141) | (2,363) | (95) |
| Net loss | (83,873) | (75,464) | (73,860) |
| Transfers, net | 72,761 | 63,295 | 53,008 |
| Cumulative effect of change in accounting principles | -- | (180,447) | -- |
| Decrease in net position | $ (11,112) | $ (192,616) | $ (20,852) |

## SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS – REVENUES, EXPENSES, AND CHANGES IN NET POSITION

*Operating revenues*

Total operating revenues increased from the year ended June 30, 2018 to the year ended June 30, 2019 by approximately $17.1 million or 15.4%.

- *Net patient service revenues* – increased by approximately $16.0 million or 15.8% from prior year due to an increase in providers and volume in fiscal year 2019, along with an increase in DSS Supplemental payments.

- *Contract and other revenues* – increased by approximately $1.1 million or 11.4% from prior year due to an increase in Anesthesia revenue and incentives received based on provider pay-per-performance.

*Operating expenses*

Total operating expense increased from the year ended June 30, 2018 to the year ended June 30, 2019 by approximately $27.7 million or 15.1%.

- *Salaries and wages* – increased by approximately $9.3 million from prior year due to an overall increase in UMG's provider FTE's. UMG had 2,391 and 2,270 total provider FTE's as of June 30, 2019 and 2018, respectively.

### SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS – REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

- *Fringe benefits* – increased by approximately $16.9 million from prior year due to UMG recording its proportionate share of pension and OPEB expenses.

- *Depreciation and amortization* – decreased by approximately $2.5 million from prior year, as UMG disposed of its NextGen system in 2018 due to the EPIC installation. The NextGen system was entirely owned by UMG and, therefore, had a higher annual depreciation compared to the new EPIC system, which is split proportionally between UMG and JDH.

- *Outside and other purchased services* – decreased by approximately $1.5 million from prior year, primarily driven by a decrease in the need for temporary staffing for operational support after the EPIC install.

- *Other expenses* – increased by approximately $2.8 million from prior year, primarily driven by the expensing of non-capitalizable equipment and services related to the EPIC installation.

### SUMMARY OF CASH FLOWS

The statements of cash flows provide additional information about UMG's financial results by reporting the major sources and uses of cash. A summary of the statements of cash flows for the years ended June 30, 2019, 2018 and 2017 is as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| | | *(in thousands)* | |
| Cash received from operations | $ 123,226 | $ 112,679 | $ 103,577 |
| Cash expended for operations | (192,328) | (166,649) | (160,802) |
| Net cash used in operations | (69,102) | (53,970) | (57,225) |
| Net cash provided by noncapital financing activities | 69,268 | 65,353 | 53,696 |
| Net cash (used in) / provided by capital and related financing activities | (166) | (11,383) | 3,529 |
| Net change in cash | -- | -- | -- |
| Cash - Beginning | -- | -- | -- |
| Cash - Ending | $ -- | $ -- | $ -- |

### OPERATIONAL HIGHLIGHTS

UMG unique patient visits of approximately 720,000 represent an increase of approximately 53,000 from 2018. UMG's volume growth is representative of its growth in market share realizing the potential of Bioscience Connecticut.

### CAPITAL AND INTANGIBLE ASSETS

At June 30, 2019, UMG had capital and intangible assets of $38.2 million before accumulated depreciation compared to $40.9 million at June 30, 2018. Equipment decreased by $1.6 million in 2019 due to the capitalization of specialized equipment. Computer software had a net decrease of $987,000 due to the disposal of software no longer being used because of the implementation of EPIC last year, as shown in the table below:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Land | $ 89,132 | $ 89,132 | $ 89,132 |
| Construction in progress (estimated costs to complete of $39,000 and $500,562 at June 30, 2019 and 2018, respectively) | 932,393 | 1,159,803 | 8,461,597 |
| Buildings and leasehold improvements | 13,250,986 | 13,183,237 | 12,776,989 |
| Equipment | 10,516,956 | 12,104,019 | 16,360,774 |
| Computer software | 13,367,506 | 14,354,496 | 12,749,356 |
| | 38,156,973 | 40,890,687 | 50,437,848 |
| Less accumulated depreciation and amortization | 20,289,301 | 19,696,354 | 28,504,305 |
| Capital and intangible assets, net | $ 17,867,672 | $ 21,194,333 | $ 21,933,543 |

For fiscal 2020, all UConn Health capital requests will be considered for funding on an individual basis. Capital requests will be considered by the senior executive committee of UConn Health. More detailed information about UMG's capital and intangible assets are presented in note 6 to the financial statements.

### BIOSCIENCE CONNECTICUT

All construction work related to the Bioscience Connecticut and the Clinical Building Renovations has been completed for year ending June 30, 2019.

### FISCAL 2020 OUTLOOK

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. We are competing aggressively to be the employer and provider of choice not only in the Farmington Valley, but throughout Connecticut.

Research, education, and patient care remain the cornerstones of UConn Health's mission. Each area has its own challenges and objectives.

## FISCAL 2020 OUTLOOK (CONTINUED)

In research, the competition for researchers and grants is significant. UConn Health's collaboration with Jackson Laboratories, which garners the attention of top talent, and the funding opportunities that come with them, has helped. However, competition for such researchers remains difficult and expensive.

Our educational enterprise remains strong and has been bolstered in recent years by the completion of the Academic Rotunda and a new curriculum. These changes position both the School of Medicine and the School of Dental Medicine to compete in what is becoming an increasingly competitive and value-driven marketplace.

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 public private partnerships 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 year 2018. The installation resulted in a new medical records system throughout UConn Health, linking patients via a single electronic health record (EHR) and positions UMG 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.

Continued economic pressures within the State of Connecticut 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.

### FISCAL 2020 OUTLOOK (CONTINUED)

On July 31, 2017, the State Legislature approved the State Employees Bargaining Agent Coalition (SEBAC) 2017 agreement that was ratified by union membership. In addition, contracts were ratified for all of UConn Health bargaining units participating in SEBAC. The SEBAC 2017 agreement includes provisions for wage increases in each of the next two fiscal years. These increases, along with the impact of unfunded pension and retiree health costs on the State's fringe benefit rates will result in increased financial pressure on UConn Health. The agreement also provides for certain employment protection for bargaining unit employees through June 30, 2021 reducing operational flexibility.

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

### CONTACTING UCONN MEDICAL GROUP'S FINANCIAL MANAGEMENT

This financial report provides the reader with a general overview of UMG's finances and operations. If you have questions about this report or need additional financial information, please contact the Office of the Chief Financial Officer, UConn Health, Farmington, Connecticut 06030-3800.

INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
**University of Connecticut Health Center**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the University of Connecticut Health Center UConn Medical Group (UConn Medical Group), 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 financial statements, which collectively comprise UConn Medical Group's basic 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 financial position of the University of Connecticut Health Center UConn Medical Group as of June 30, 2019 and 2018, and the results of its operations and changes in net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

*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 9, the Schedule of Changes in UConn Medical Group's Net Pension Liability and Related Ratios on page 50, the Schedule of Pension Contributions on page 51, the Schedule of Changes in UConn Medical Group's Net OPEB Liability and Related Ratios on page 52, the Schedule of UConn Medical Group's Proportionate Share of the Net OPEB Liability on page 53, and the Schedule of UConn Medical Group's OPEB Contributions on page 54, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the UConn Medical Group'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 UConn Medical Group'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 UConn Medical Group's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
November 26, 2019

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## STATEMENTS OF NET POSITION

## JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Patient accounts receivable, net of estimated uncollectibles of $5,652,000 and $2,744,000 at June 30, 2019 and 2018, respectively | $ 11,031,632 | $ 9,101,230 |
| Inventory | 1,142,715 | 263,692 |
| Contract and other receivables | 2,932,543 | 96,837 |
| Prepaid expenses | 19,215 | 90,460 |
| **Total Current Assets** | 15,126,105 | 9,552,219 |
| **Noncurrent Assets** | | |
| Capital and intangible assets, net (note 6) | 17,867,672 | 21,194,333 |
| **Total Noncurrent Assets** | 17,867,672 | 21,194,333 |
| **Total Assets** | 32,993,777 | 30,746,552 |
| **Deferred Outflows of Resources** | | |
| Deferred amount for pensions (note 8) | 45,043,827 | 44,675,709 |
| Deferred amount for OPEB (note 8) | 22,910,769 | 9,558,732 |
| **Total Deferred Outflows of Resources** | $ 67,954,596 | $ 54,234,441 |

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

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## STATEMENTS OF NET POSITION (CONTINUED)

## JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Liabilities and Net Position** | | |
| **Current Liabilities** | | |
| Cash overdraft | $ 2,129,572 | $ 5,622,734 |
| Accounts payable and accrued expenses | 2,864,376 | 4,265,303 |
| Accrued payroll | 9,615,839 | 7,913,072 |
| Due to UConn Health Malpractice Fund (note 1) | 12,539 | 12,539 |
| Due to JDH (note 9) | 5,529,552 | 5,600,000 |
| Due to Finance Corporation | 757,389 | -- |
| Accrued compensated absences, current portion (note 7) | 3,049,767 | 3,026,756 |
| **Total Current Liabilities** | 23,959,034 | 26,440,404 |
| **Noncurrent Liabilities** | | |
| Pension liabilities (note 8) | 140,746,686 | 130,934,626 |
| OPEB liabilities (note 8) | 202,292,652 | 189,229,897 |
| Accrued compensated absences, noncurrent portion (note 7) | 5,228,646 | 5,035,992 |
| **Total Noncurrent Liabilities** | 348,267,984 | 325,200,515 |
| **Total Liabilities** | 372,227,018 | 351,640,919 |
| **Deferred Inflows of Resources** | | |
| Deferred amount for pensions (note 8) | 470,513 | -- |
| Deferred amount for OPEB (note 8) | 10,777,296 | 4,753,967 |
| **Total Deferred Inflows of Resources** | 11,247,809 | 4,753,967 |
| **Net Position** | | |
| Net investment in capital assets | 17,867,672 | 21,194,333 |
| Unrestricted deficit | (300,394,126) | (292,608,226) |
| **Total Net Position** | $ (282,526,454) | $ (271,413,893) |

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

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

## FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Operating Revenues** | | |
| Net patient service revenues (note 3) | $ 117,518,299 | $ 101,475,291 |
| Contract and other revenues | 10,473,517 | 9,401,318 |
| **Total Operating Revenues** | 127,991,816 | 110,876,609 |
| **Operating Expenses** | | |
| Salaries and wages | 95,322,214 | 85,982,460 |
| Fringe benefits | 66,691,316 | 49,764,087 |
| Medical contractual support | 7,976,036 | 7,077,629 |
| Internal contractual support | 14,301,299 | 14,418,232 |
| Outside agency per diems | 1,138,483 | 458,695 |
| Depreciation and amortization (note 6) | 3,280,347 | 5,758,884 |
| Pharmaceutical/medical supplies | 7,413,570 | 6,603,601 |
| Utilities | 198,299 | 235,062 |
| Outside and other purchased services | 9,036,627 | 10,492,222 |
| Insurance | 1,153,294 | 761,037 |
| Repairs and maintenance | 929,255 | 889,020 |
| Other expenses | 4,283,019 | 1,536,094 |
| **Total Operating Expenses** | 211,723,759 | 183,977,023 |
| **Operating Loss** | (83,731,943) | (73,100,414) |
| **Nonoperating Expenses** | | |
| Loss on disposals (note 6) | (141,484) | (2,363,104) |
| **Net Nonoperating Expenses** | (141,484) | (2,363,104) |
| **Loss before Transfers** | (83,873,427) | (75,463,518) |
| **Net Transfers from UConn Health - Unrestricted** (note 9) | 72,760,866 | 63,294,527 |
| **Decrease in Net Position** | (11,112,561) | (12,168,991) |
| **Net Position -** Beginning of year (as previously stated) | (271,413,893) | (78,797,831) |
| **Cumulative Effect of Implementing GASB 75** | -- | (180,447,071) |
| **Net Position -** Beginning of year (as restated 2018) | (271,413,893) | (259,244,902) |
| **Net Position -** End of year | $ (282,526,454) | $ (271,413,893) |

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

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from patients and third-party payors | $ 115,587,897 | $ 103,007,499 |
| Cash received from contract and other revenues | 7,637,811 | 9,671,991 |
| Cash paid to employees for salaries and fringe benefits | (160,095,098) | (134,607,016) |
| Cash paid for other than personnel services | (32,232,696) | (32,042,278) |
| **Net Cash Used in Operating Activities** | (69,102,086) | (53,969,804) |
| **Cash Flows from Noncapital Financing Activities** | | |
| Net transfers from UConn Health's unrestricted net assets to support operations | 72,760,866 | 63,294,527 |
| Net (repayments) draw downs on cash overdraft | (3,493,162) | 2,058,055 |
| **Net Cash Provided by Noncapital Financing Activities** | 69,267,704 | 65,352,582 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchases of capital assets | (95,170) | (7,382,778) |
| Repayment to JDH | (70,448) | (4,000,000) |
| **Net Cash Used in Capital and Related Financing Activities** | (165,618) | (11,382,778) |
| **Net Change in Cash** | -- | -- |
| **Cash** - Beginning | -- | -- |
| **Cash** - Ending | $ -- | $ -- |

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

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## STATEMENTS OF CASH FLOWS (CONTINUED)

## FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Used in Operating Activities** | | |
| Operating loss | $ (83,731,943) | $ (73,100,414) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 3,280,347 | 5,758,884 |
| Non-cash portion of pension expense | 9,914,455 | 3,975,241 |
| Non-cash portion of OPEB | 5,734,047 | 3,978,061 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | (1,930,402) | 1,532,208 |
| Inventory | (879,023) | 325,351 |
| Contract and other receivables | (2,835,706) | 270,673 |
| Prepaid expenses | 71,245 | (45) |
| Accounts payable and accrued expenses | (1,400,927) | 2,155,519 |
| Due to UConn Health Malpractice Fund | -- | (4,813) |
| Due to Finance Corporation | 757,389 | -- |
| Accrued payroll | 1,702,767 | 472,317 |
| Accrued compensated absences | 215,665 | 667,214 |
| **Net Cash Used in Operating Activities** | $ (69,102,086) | $ (53,969,804) |

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

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

### *REPORTING ENTITY*

The University of Connecticut Health Center UConn Medical Group (UConn Medical Group or UMG) clinical operations are modeled, in part, on private group practices and include approximately 470 providers practicing in a wide variety of specialties.

The financial statements include those assets, deferred outflows, liabilities, deferred inflows, revenue, and expense accounts reflected in the accounting records of UMG, which is operated as a separate, identifiable unit (included in the 12018 fund) of the University of Connecticut Health Center (UConn Health). The 12018 fund represents the operating fund for all the entities that comprise UConn Health. UMG has unlimited access to the funds available in the 12018 fund to fund their operations. The Governor of the State of Connecticut (the State) appoints the Board of Trustees of the University of Connecticut whose chairman then appoints the Board of Directors, which oversees UConn Health, including UMG. Reference is made to note 9 for related party transactions.

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

### *BASIS OF PRESENTATION*

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

### *PROPRIETARY FUND ACCOUNTING*

UMG 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. Financial statement areas where management applies the use of estimates consist primarily of the allowance for uncollectible accounts, contractual allowances, pension and OPEB liabilities.

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

### *CASH AND CASH OVERDRAFT*

Cash balances are included in a pooled cash account with the cash balances of the other entities included in the 12018 fund. Cash overdraft positions, which occur when total outstanding issued checks exceed available cash balances at the end of each reporting period, are presented as a liability within the statements of net position. See note 3 for discussion regarding UMG's available borrowing.

### *ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUES*

Patient accounts receivable and net patient service revenues are recorded at the estimated net realizable amounts from patients and third party payors, when patient services are rendered.

The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See note 3 for additional information relative to net patient revenues and third-party payor programs.

### *INVENTORY*

Inventory, with the exception of pharmaceuticals, is recorded at cost, determined by the first-in, first-out (FIFO) method. Pharmaceuticals are valued at market value, which approximates cost due to high turnover rates. Short-term or minor supplies are expensed as incurred.

### *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 asset and is computed using the straight-line method. Buildings (and related improvements) 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.

For projects including the development of computer software, construction in progress is capitalized as costs are incurred during the construction phase and depreciation will begin once the assets are placed in service.

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

### *INTANGIBLE ASSETS*

Intangible assets consist of capitalized computer software costs, including software internally developed. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development state, or post-implementation state, and the nature of the costs. Computer software costs are amortized on a straight-line basis over their expected useful lives which range from 3 to 10 years. During the years ended June 30, 2019 and 2018, UMG capitalized approximately $36,000 and $13.6 million, respectively, related to its EPIC installation, a new electronic health system. Capitalized computer software costs are included with capital and intangible assets on the statements of net position. Reference is made to note 6 for the gross costs capitalized and the accumulated amortization of capitalized computer costs.

### *IMPAIRMENT OF LONG-LIVED ASSETS*

UMG records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. During 2019, UMG disposed of a voice recognition system. Total loss on disposal was approximately $137,000. During 2018, UMG implemented My UConn Health, a new electronic health system, which replaced the Siemens NextGen System (NextGen). NextGen was written off and the loss on disposal was approximately $2,000,000.

### *RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS*

Eligible employees of UMG, as defined, may participate in the following State retirement plans: the State Employees' Retirement System Tier I, Tier II, Tier IIA, Tier IV Hybrid (SERS) and the Teachers' Retirement System (TRS) defined benefit plans; and the Alternate Retirement Plan (ARP), which is a defined contribution plan. These plans are funded by contributions from the State as well as payroll deductions from employees, except for the Tier II Plan, which is noncontributory. In addition, eligible employees may participate in a State defined contribution deferred compensation plan, which is funded by payroll deductions from employees.

The State is statutorily responsible for the pension benefits of UMG employees who participate in the aforementioned defined benefit plans. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. These plans do not issue stand-alone financial reports. Summary information on the plans is publicly available in the State's Comprehensive Annual Financial Report.

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

### *RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)*

UMG has recorded and disclosed pensions in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as amended by GASB Statement No. 82 (collectively referred to herein as GASB 68). GASB 68 requires the pro rata share of State pension liabilities to be recorded at the entity level. UMG continues to pay into State retirement plans on a pay-as-you-go basis, but has recorded its corresponding liability and deferred inflows and outflows as prescribed by GASB 68.

The State also provides other postemployment benefits other than pensions (OPEB), including health care and life insurance benefits to eligible UConn Health employees, including those of UMG, in accordance with Sections 5-257(d) and 5-259(a) of the Connecticut General Statutes. Upon retirement, the liability for other retirement benefits rests with the State. When employees retire, the State pays up to 100% of their health care insurance premium cost (including the cost of dependent coverage). The State finances the cost of postemployment health care and life insurance benefits on a pay-as-you-go basis through an appropriation from the General Fund.

In 2018, UMG implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB 75). Beginning in 2018, UMG recorded its pro rata share of the OPEB liability held at the State level. UMG continues to pay its portion of the State of Connecticut Employee OPEB Plan (SEOPEBP) on a pay-as-you-go basis, but has recorded its corresponding liability and deferred inflows and outflows as prescribed by GASB 75. See notes 2 and 8 for additional details.

### *PENSION LIABILITIES*

UMG records its proportionate share of the collective net pension liability and collective pension expense for each defined benefit plan offered to its employees. The collective net pension liability for each plan is measured as the total pension liability, less the amount of the pension plan’s fiduciary net position. The total pension liability is the portion of the actuarial present value of projected benefits payments that are attributable to past periods of plan member service.

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

### *PENSION LIABILITIES (CONTINUED)*

Information about the fiduciary net position and additions to/deductions from each pension plan's fiduciary net position has been determined on the same basis as they are reported by each pension plan. For this purpose, plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

### *OPEB LIABILITIES*

Individuals who are employed by UMG are eligible to participate in the State's group health plan and are also eligible to continue benefits upon retirement. Retirees under the age of 65 pay the same premium for medical, prescription drugs, and dental benefits as active employees, which results in an implicit rate subsidy and OPEB liability. For this purpose, plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. UMG recorded its proportionate share of the net OPEB liability during the years ended June 30, 2019 and 2018.

### *DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES*

UMG reports its proportionate share of collective deferred outflows of resources and collective deferred inflows of resources related to its defined benefit and OPEB plans. Differences between expected and actual experience in the measurement of the total pension and OPEB liabilities, changes of assumptions or other inputs, and differences between actual contributions and proportionate share of contributions are classified as either deferred outflows or deferred inflows, and are recognized over the average of the expected remaining service lives of employees eligible for pension and OPEB benefits. The net differences between projected and actual earnings on the pension plan and the OPEB plan investments are reported as deferred outflows or deferred inflows and are recognized over five years, while other changes are recognized over remaining average service life. Contributions to the pension and OPEB plans from UMG subsequent to the measurement date of the net liabilities and before the end of the reporting period are reported as a deferred outflow of resources related to pensions and OPEB.

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

### *COMPENSATED ABSENCES*

UMG's employees earn vacation, personal, compensatory and sick time at varying rates depending on their collective bargaining units. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from UMG may convert accumulated sick leave to termination payments at varying rates, depending on the employee's contract. Amounts recorded on the statements of net position are based on historical experience. All other compensated absences are accrued at 100% of their balance. Compensated absences have been allocated between current and noncurrent liabilities based on historical information.

### *THIRD-PARTY PAYORS*

Laws governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. Each year, as the Office of Inspector General's (OIG) work plan changes, new areas of scrutiny surface. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in any given period.

### *MEDICAL MALPRACTICE*

The physicians, health care providers and support staff of UMG are fully protected by State Statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity are charged against UConn Health's malpractice self-insurance fund. UConn Health allocates an annual malpractice premium to UMG, designed to reflect an estimate for the current year's cash claims to be processed. For the years ended June 30, 2019 and 2018, such premiums were approximately $150,000 per year. These premiums are included in insurance expense in UMG's statements of revenues, expenses, and changes in net position. The due to UConn Health Malpractice Fund reported on the statements of net position represents premiums payable for occurrence based coverage through June 30, 2019 and 2018, respectively.

### *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 balances of any outstanding borrowings (less amounts held in trust, if any) used to finance the purchase or construction of those assets. All other assets less liabilities are classified as unrestricted.

## NOTE 2 – RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS

### *RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS*

In 2019, UMG 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 occurs when the liability is both incurred and reasonably estimable. Implementation of this standard did not have a material impact on UMG's financial statements.

In 2019, UMG implemented GASB Statement No. 88, *Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. Implementation of this standard did not have a material impact on UMG's financial statements.

As disclosed in note 1, in 2018, UMG adopted GASB 75, which required additional disclosures and the recording of UMG's proportionate share of the net liabilities related to its participation in the SEOPEBP on the statements of net position and requires supplementary information about the postemployment liabilities.

## NOTE 2 – RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS (CONTINUED)

### *RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS (CONTINUED)*

As the SEOPEBP did not have a practical way to provide each of its component units with all of the information needed to fully restate their prior period financial statements, UMG elected to apply the "cumulative effect" method, as permitted by GASB 75, by restating beginning net position as of July 1, 2017.

The implementation of this standard resulted in an adjustment to reduce UMG's beginning net position by $180.4 million as of July 1, 2017.

The cumulative effect of applying GASB 75 is reported as a restatement of beginning net position. The following table shows the impact of the cumulative effect method of adopting and implementing GASB 75 on beginning net position.

| | *(in millions)* |
|---|---|
| Net position, beginning of period, July 1, 2017 (as previously stated) | $ (78.8) |
| UMG's proportionate share of beginning net OPEB liability | (187.7) |
| UMG's 2017 contributions after OPEB liability measurement date | 7.3 |
| Net position, beginning of period, July 1, 2017 (as restated) | $ (259.2) |

### *UPCOMING ACCOUNTING PRONOUNCEMENTS*

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. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as deferred inflows of resources or deferred outflows of resources based on the payment provisions of the contract. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. UMG is currently evaluating the impact this standard will have on its financial statements.

## NOTE 3 – NET PATIENT SERVICE REVENUES

UMG provides health care services primarily to residents of the region. Revenues from the Medicare program accounted for approximately 37% and 36% of UMG's net patient service revenues for the years ended June 30, 2019 and 2018, respectively. Revenues from the Medicaid program accounted for approximately 22% and 21% of UMG's net patient service revenues for the years ended June 30, 2019 and 2018, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. UMG believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on UMG.

Patient accounts receivable included approximately 13% and 17% due from Medicaid at June 30, 2019 and 2018, respectively. Approximately 32% and 29% was due from Medicare at June 30, 2019 and 2018, respectively.

Patient service revenues reported net of allowances for the years ended June 30 were:

| | 2019 | 2018 |
|---|---|---|
| Gross patient service revenues | $ 277,867,699 | $ 255,472,733 |
| Less contractual allowances | (154,648,128) | (152,636,528) |
| Less provision for bad debt | (5,701,272) | (1,360,914) |
| Net patient service revenues | $ 117,518,299 | $ 101,475,291 |

### *HYPOTHECATION*

In accordance with State Statute, UMG can borrow from the State up to 70% of its net patient receivables and contract and other receivables to fund operations. As of June 30, 2019 and 2018, UMG had drawn down $2,129,572 and $5,622,734, respectively. As of June 30, 2019 and 2018, UMG had available amounts of $7,645,350 and $815,913, respectively, under the State Statute.

## NOTE 3 – PATIENT SERVICE REVENUES (CONTINUED)

UMG has contracts with certain third-party payors that provide for payments to UMG at amounts different from established billing rates. As such, gross patient revenues are reduced by contractual allowances. A summary of the payment arrangements with major third-party payors is as follows:

### *MEDICARE*

All services provided to traditional Medicare participants are reimbursed based on the resource-based relative value system (RBRVS). Various third-party payors, with the approval of the Centers for Medicare and Medicaid Services (CMS), provide Medicare managed care programs to its members, which reimburse UMG based on their own fee schedules.

### *MEDICAID*

Services are reimbursed based on Medicaid fee schedules, except for select third-party payors and out of state Medicaid. These third-parties reimburse UMG based upon their own individual fee schedules. In fiscal years 2019 and 2018, UMG received $10.0 million and $3.9 million, respectively, in supplemental payments from the Department of Social Services (DSS), which have been recorded as net patient service revenues in the statements of revenues, expenses, and changes in net position.

### *BLUE CROSS HOSPITAL-BASED PROVIDERS*

Hospital-based practices, including radiology, are reimbursed based on the Blue Cross Hospital-Based Providers (HBP) fee schedule.

### *BLUE SHIELD*

Physicians are reimbursed according to Blue Shield’s published fee schedule.

### *MANAGED CARE*

UMG has entered into contracts with managed care companies. The basis for payment under these arrangements is primarily agreed-upon fee schedules with limited capitated contracts for primary care services.

## NOTE 3 – PATIENT SERVICE REVENUES (CONTINUED)

### *ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS*

UMG's estimation of the allowance for uncollectible accounts is based primarily on the type and age of the patient accounts receivable and the effectiveness of UMG's collection efforts. UMG's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, UMG reviews its accounts receivable balances, the effectiveness of UMG's reserve policies, and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients
- Various allowance coverage statistics

UMG regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for uncollectible accounts.

## NOTE 4 – CONTRACT AND OTHER REVENUES

UMG enters into contracts with external entities including hospitals, retirement homes, and the State Department of Corrections to provide physician services. UMG also provides physician services to entities within UConn Health, including the School of Medicine, School of Dental Medicine, the Dental Clinic, and John Dempsey Hospital. Revenue related to these services is included in patient service revenues when relating to patient visits. Other miscellaneous revenues including revenues related to the performance of administrative duties at UConn Health are included in contract and other revenues in the statements of revenues, expenses, and changes in net position. Contract and other revenues are recorded when the services are rendered.

### *CHARITY CARE*

UMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During 2019 and 2018, UMG provided charity care services of $44,601 and $54,612, respectively.

## NOTE 4 – CONTRACT AND OTHER REVENUES (CONTINUED)

### *CHARITY CARE (CONTINUED)*

The estimated cost of these services was $12,680 and $18,295, respectively, for the years ended June 30, 2019 and 2018. No net patient service revenue was recorded for these services; however, expenses associated with these services were included in operating expenses.

## NOTE 5 – ELECTRONIC HEALTH RECORD REIMBURSEMENT

The Health Information Technology for Economic and Clinical Health Act (the HITECH Act) was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of electronic health records by health professionals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible physicians participating in the Medicare and Medicaid programs were eligible for reimbursement incentives based on successfully demonstrating meaningful use of certified Electronic Health Record (EHR) technology. Conversely, those physicians that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in reimbursements beginning in fiscal year 2016. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals for efforts to adopt, implement, and meaningfully use certified EHR technology. UMG utilizes a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant period to determine the amount of reimbursement.

For the year ended June 30, 2018, UMG recorded approximately $451,000 of EHR incentive revenue, which was included in contract and other revenues in the accompanying statements of revenues, expenses and changes in net position. UMG's attestation of compliance with the meaningful use criteria is subject to audit by the federal government. In 2018, CMS renamed the Program to Promoting Interoperability. UMG will no longer receive a reimbursement settlement, but it will earn a performance-based adjustment to the prospective rate.

The Merit Based Incentive Payment System (MIPS), established by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), went into effect on January 1, 2017. CMS designed MIPS to tie payments to quality and cost efficient care, drive improvement in care processes and health outcomes, increase the use of healthcare information, and reduce the cost of care. Eligible clinicians who collect MIPS data for the 2019 Performance Year must report this data by March 31, 2020 to be eligible for a performance-based increase in the rate of their Medicare payments in 2021. There are no separate settlements.

## NOTE 6 – CAPITAL AND INTANGIBLE ASSETS, NET

Capital and intangible assets at June 30 consist of the following:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 89,132 | $ 89,132 |
| Construction in progress (estimated costs to complete of $39,000 and $500,562 at June 30, 2019 and 2018, respectively) | 932,393 | 1,159,803 |
| Buildings and leasehold improvements | 13,250,986 | 13,183,237 |
| Equipment | 10,516,956 | 12,104,019 |
| Computer software | 13,367,506 | 14,354,496 |
| | 38,156,973 | 40,890,687 |
| Less accumulated depreciation and amortization | 20,289,301 | 19,696,354 |
| Capital and intangible assets, net | $ 17,867,672 | $ 21,194,333 |

Activity for the years ended June 30, 2019 and 2018 is as follows:

| | 2018 | Additions | Deductions | 2019 |
|---|---|---|---|---|
| Land | $ 89,132 | $ -- | $ -- | $ 89,132 |
| Construction in progress | 1,159,803 | 2,820,179 | (3,047,589) | 932,393 |
| Buildings and leasehold improvements | 13,183,237 | 67,749 | -- | 13,250,986 |
| Equipment | 12,104,019 | 254,831 | (1,841,894) | 10,516,956 |
| Computer software | 14,354,496 | -- | (986,990) | 13,367,506 |
| | $ 40,890,687 | $ 3,142,759 | $ (5,876,473) | $ 38,156,973 |

| | 2017 | Additions | Deductions | 2018 |
|---|---|---|---|---|
| Land | $ 89,132 | $ -- | $ -- | $ 89,132 |
| Construction in progress | 8,461,597 | 7,728,925 | (15,030,719) | 1,159,803 |
| Buildings and leasehold improvements | 12,776,989 | 406,248 | -- | 13,183,237 |
| Equipment | 16,360,774 | 1,091,626 | (5,348,381) | 12,104,019 |
| Computer software | 12,749,356 | 13,186,698 | (11,581,558) | 14,354,496 |
| | $ 50,437,848 | $ 22,413,497 | $ (31,960,658) | $ 40,890,687 |

## NOTE 6 – CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

Related information on accumulated depreciation and amortization for the years ended June 30, 2019 and 2018 is as follows:

| | 2018 | Additions | Deductions | 2019 |
|---|---|---|---|---|
| Buildings and leasehold improvements | $ 9,179,732 | $ 772,378 | $ -- | $ 9,952,110 |
| Equipment | 9,307,314 | 972,901 | (1,700,409) | 8,579,806 |
| Computer software | 1,209,308 | 1,535,068 | (986,991) | 1,757,385 |
| | $ 19,696,354 | $ 3,280,347 | $ (2,687,400) | $ 20,289,301 |

| | 2017 | Additions | Deductions | 2018 |
|---|---|---|---|---|
| Buildings and leasehold improvements | $ 8,342,892 | $ 836,840 | $ -- | $ 9,179,732 |
| Equipment | 11,777,775 | 2,443,661 | (4,914,122) | 9,307,314 |
| Computer software | 8,383,638 | 2,478,383 | (9,652,713) | 1,209,308 |
| | $ 28,504,305 | $ 5,758,884 | $ (14,566,835) | $ 19,696,354 |

UMG placed EPIC in service during 2018, which had total capitalized hardware and software costs of approximately $13.6 million in fiscal year ended June 30, 2018. In fiscal year ended June 30, 2019, additional capitalized costs were approximately $36,000. This represents UMG's share of the cost of the system that met the criteria for capitalization of the project. The EPIC system is being depreciated over 10 years and related hardware is being depreciated between 3 to 10 years.

## NOTE 7 – LONG-TERM LIABILITIES AND OPERATING LEASES

Activity related to compensated absences for the years ended June 30, 2019 and 2018 is as follows:

| | June 30, 2018 Balance | Additions | Deductions | June 30, 2019 Balance | Amounts due within 1 year |
|---|---|---|---|---|---|
| Accrued compensated absences | $ 8,062,748 | $ 5,525,826 | $ (5,310,161) | $ 8,278,413 | $ 3,049,767 |

## NOTE 7 – LONG-TERM LIABILITIES AND OPERATING LEASES (CONTINUED)

| | June 30, 2017 Balance | Additions | Deductions | June 30, 2018 Balance | Amounts due within 1 year |
|---|---|---|---|---|---|
| Accrued compensated absences | $ 7,395,534 | $ 5,238,417 | $ (4,571,203) | $ 8,062,748 | $ 3,026,756 |

UMG leases office space under operating leases. Total rent expense for the years ended June 30, 2019 and 2018 was $9,895,798 and $10,144,927, respectively, which is included in internal contractual support expense and outside purchased services expense in the statements of revenues, expenses and changes in net position. The portion of rent expense paid to UConn Health and recorded as internal contractual support for the years ended June 30, 2019 and 2018, was $7,330,154 and $7,394,007, respectively.

The Outpatient Pavilion was opened in 2015 and UMG leases space in the facility under a sublease from UConn Health. While the sublease is expected to be renewed on an annual basis, there is no written sublease that extends beyond a one-year period. UConn Health has leased the Outpatient Pavilion from Finance Corporation, a related party through common ownership, under a direct financing lease that expires on March 31, 2040. Rent expense related to the Outpatient Pavilion and based on square footage was approximately $6.5 million for the years ended June 30, 2019 and 2018.

The following is a schedule by year of existing future minimum lease payments under non-cancellable operating leases as of June 30, 2019, in addition to space in the Outpatient Pavilion through the sublease with UConn Health based on the assumption that the sublease will be extended annually through March 31, 2040.

| Year ending June 30, | |
|---|---|
| 2020 | $ 9,384,152 |
| 2021 | 9,243,486 |
| 2022 | 9,128,432 |
| 2023 | 9,097,810 |
| 2024 | 9,106,700 |
| Thereafter | 144,665,755 |
| | $ 190,626,335 |

## NOTE 8 – PENSION AND OPEB PLANS

Employees of UMG are eligible to participate in the SERS, a defined benefit pension plan that is administered by the State Employees' Retirement Commission; the ARP, a defined contribution plan administered by the State; or the TRS, a defined benefit plan administered by the Teacher's Retirement Board; collectively, the "plans". Through their participation in one of the above plans, employees are also enrolled in the SEOPEBP. Information on the plans' total funding status and progress, contributions required and trend information can be found in the State's Comprehensive Annual Financial Report available on the State's website. Information for the SERS and OPEB plans, in which UMG holds significant liabilities under GASB 68 and GASB 75, respectively, is presented below.

### *SERS PLAN DESCRIPTION*

SERS is a single-employer defined benefit Public Employees' Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of five tiers. Tier I, Tier IIA, and Tier III are contributory plans and Tier II is a non-contributory plan. Tier I Plan B participants contribute 2% or 5% of their pay, depending on their elections. Tier II Plan A and Tier III participants contribute 2% of their pay. The fifth tier is called the Hybrid Plan.

Individuals hired on or after July 1, 2011, otherwise eligible for the ARP were eligible to convert to the Hybrid Plan by exercising a one-time option to buy in at the full actuarial cost. The deadline for this election was December 14, 2018. The Hybrid Plan has defined benefits identical to Tier II/IIA and Tier III for individuals hired on or after July 1, 2011, but requires employee contributions 3% higher than the contribution required from the Applicable Tier II/IIA/III Plan. An employee shall have the option, upon leaving State service, of accepting the defined benefit amount, or electing to receive a return of his/her contributions to the Hybrid Plan, plus a 5% employer match and 4% interest ("cash out option"). In the event the employee elects the cash out option, he/she shall permanently waive any entitlement they may have to health insurance as a retired State employee unless they convert the cash out option to a periodic payment as would be required under the current ARP.

Members who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Tier I employees who retire at or after age 65 with 10 years of credited service, or at or after age 55 with 25 years of service, or at age 55 with 10 years of credited service with reduced benefits are entitled to an annual retirement benefit payable monthly for life, in the amount of 2% of the annual average earnings (which are based on the three highest years of service) over $4,800 plus 1% of $4,800 for each year of credited service. Tier II employees who retire at or after age 60 with 25 years of service, or at age 62 with 10 years of service, or at age 70 with 5 years of service, or at age 55 with 10 years of service with reduced benefits are entitled to 1.4% times

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *SERS PLAN DESCRIPTION (CONTINUED)*

average salary at or below the breakpoint in the year of retirement, for each year of credited service. Tier III covers employees first hired on or after July 1, 2011. Tier III employees to retire at, or after age 63 with 25 years of service, or at age 65 with 10 years of service, or at age 58 with 10 years of service with reduced benefits are entitled to 1.4% times average salary at or below the breakpoint in the year of retirement, for each year of credited service. All Tier I, Tier II, Tier IIA, and Tier III members are vested after ten years.

The 2011 State Employee Bargaining Agent Coalition (SEBAC) Agreement changed the benefit multiplier for the portion of the benefit below the breakpoint from 1.33% to 1.40%. This change was made effective for all active members who retire on or after July 1, 2013 in Tier II, IIA, III, and the Hybrid Plan.

A one-time decision was granted to members not eligible to retire by July 1, 2022 to elect to maintain the same normal retirement eligibility applicable to members eligible to retire before July 1, 2022. Employees who elected by July 1, 2013 to maintain their eligibility are required to make additional employee contributions for the length of their remaining active service with SERS. The additional contribution is up to 0.72% of pensionable earnings.

The pension liability recorded as of June 30, 2019 and 2018 was based on the June 30, 2018 and 2017 actuarial valuations, respectively.

### *CHANGES IN ASSUMPTIONS*

There were no changes to the actuarial assumptions since the prior measurement date.

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *CONTRIBUTIONS MADE*

UMG's SERS contribution is determined by applying a State-mandated percentage to eligible salaries and wages. The mandated total fringe benefit rate, which includes allocations for retiree health care costs, rollforwards, and other adjustments, was 64.30%, 56.58% and 54.99% during fiscal years 2019, 2018, and 2017, respectively. The SERS contributions made compared to covered payroll follows:

| | Years Ended June 30 | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Total UMG payroll covered by SERS | $ 32,551,400 | $ 27,090,451 | $ 26,025,549 |
| Total UMG SERS contributions | $ 12,966,380 | $ 9,338,042 | $ 9,552,694 |
| Contributions as a percentage of covered payroll | 39.8% | 34.5% | 36.7% |

### *PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES*

GASB 68 requires UMG to recognize a net pension liability for the difference between the present value of the projected benefits for past service known as the Total Pension Liability (TPL) and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP).

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of SERS and additions to/deductions from SERS fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

At June 30, 2019 and 2018, UMG reported a SERS related liability of $140.3 million and $130.5 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined based on actuarial valuations performed as of June 30, 2018 and June 30, 2017, rolled forward based on plan experience. UMG's allocation of the net pension liability was based on UMG’s percentage of total overall contributions to the plan during the 2018 and 2017 fiscal years. At June 30, 2018 and 2017, UMG’s proportion of contributions was 0.65% and 0.62%, respectively.

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES (CONTINUED)*

For the years ended June 30, 2019 and 2018, UMG recognized SERS pension expense of $22.8 million and $13.3 million, respectively. The pension expense is reported in UMG's financial statements as part of fringe benefits expenses.

At June 30, 2019 and 2018, UMG reported deferred outflows of resources and deferred inflows of resources related to the SERS plan from the following sources:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| | *(in thousands)* | | | |
| Change in proportionate allocation of pension expense | $ 11,595 | $ -- | $ 12,208 | $ -- |
| UMG contributions subsequent to measurement date | 12,966 | -- | 9,338 | -- |
| Net difference between projected and actual earnings on pension plan investments | -- | (440) | -- | (249) |
| Difference between expected and actual experience | 4,953 | -- | 3,116 | -- |
| Changes in assumptions | 15,291 | -- | 19,997 | -- |
| | $ 44,805 | $ (440) | $ 44,659 | $ (249) |

Differences between projected and actual investment earnings are amortized over a five-year, closed-end period beginning in the year in which the difference occurs and will be recognized as an increase (decrease) to fringe benefits. Differences in proportionate participation are amortized over the remaining estimated service life of plan employees, estimated at 5.64 years.

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES (CONTINUED)*

Amortization of deferred amounts into expenses in future periods is as follows:

| Year ending June 30, | Change in proportionate participation in SERS plan | Net difference between projected and actual earnings on pension plan investments | Difference Between expected and actual experience | Change in assumptions |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| 2020 | $ 5,037 | $ 648 | $ 1,411 | $ 5,500 |
| 2021 | 3,439 | 23 | 1,411 | 5,501 |
| 2022 | 1,699 | (1,036) | 1,186 | 4,055 |
| 2023 | 873 | (75) | 577 | 145 |
| 2024 | 547 | -- | 368 | 90 |
| Thereafter | -- | -- | -- | -- |
| | $ 11,595 | $ (440) | $ 4,953 | $ 15,291 |

The amortization of the aforementioned deferred inflows and deferred outflows increased fringe benefits expense by $9,869,280 and $3,978,283 during the years ended June 30, 2019 and 2018, respectively.

### *ACTUARIAL METHODS AND ASSUMPTIONS*

The total SERS pension liability in the June 30, 2018 and 2017 actuarial valuations was determined based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2015. The key actuarial assumptions are summarized below:

| | |
|---|---|
| Inflation: | 2.50% |
| Salary increase: | 3.50% - 19.50% including inflation |
| Investment rate of return: | 6.90%, net of pension plan investment expense, including inflation |

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)*

The RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females was used for the period after retirement and for dependent beneficiaries.

### *DISCOUNT RATE*

The discount rate used to measure the total pension liability was the long-term expected rate of return of 6.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected through the year 2138.

### *EXPECTED RATE OF RETURN ON INVESTMENTS*

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *EXPECTED RATE OF RETURN ON INVESTMENTS (CONTINUED)*

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Large Cap U.S. Equities | 21% | 5.8% |
| Developed Non-U.S. Equities | 18% | 6.6% |
| Emerging Market (Non-U.S.) | 9% | 8.3% |
| Real Estate | 7% | 5.1% |
| Private Equity | 11% | 7.6% |
| Alternative Investments | 8% | 4.1% |
| Fixed Income (Core) | 8% | 1.3% |
| High Yield Bonds | 5% | 3.9% |
| Emerging Market Bond | 4% | 3.7% |
| Inflation Linked Bonds | 5% | 1.0% |
| Cash | 4% | 0.4% |
| | 100% | |

### *SENSITIVITY OF UMG'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE*

The following table presents UMG's proportionate share of the net pension liability calculated using the discount rate of 6.90%, as well as the proportionate share of the net pension liability using a 1.00% increase or decrease from the current discount rate:

| | 1% Decrease (5.90%) | Current Discount Rate (6.90%) | 1% Increase (7.90%) |
|---|---|---|---|
| UMG's proportionate share of the net pension liability | $ 167,461,935 | $ 140,334,124 | $ 117,698,929 |

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *TEACHERS' RETIREMENT SYSTEM*

UMG also has a limited number of participants in the TRS.

As of June 30, 2019 and 2018, UMG recorded the following amounts in the financial statements related to the TRS:

| | 2019 | 2018 |
|---|---|---|
| | *(in thousands)* | |
| Deferred outflows of resources | $ 239 | $ 266 |
| Deferred inflows of resources | (31) | -- |
| Pension liability | 413 | 426 |

### *ALTERNATE RETIREMENT PLAN*

UMG also participates in the ARP, a defined contribution plan administered through a third-party administrator, Prudential Financial, Inc. The Connecticut State Employees Retirement Commission has the authority to supervise and control the operation of the ARP, including the authority to make and amend rules and regulations relating to the administration of the ARP.

All unclassified employees, not already in a pension plan, of a constituent unit of the State system of higher education and the central office staff of the Department of Higher Education, are eligible to participate in the ARP. Participants must contribute 5% of eligible compensation each pay period, while the State will contribute an amount up to 7.25% and 8.00% of the participant's eligible compensation for fiscal years 2019 and 2018, respectively, via a charge recouped from UMG.

Participant and State contributions are both 100% vested immediately. For fiscal years 2019 and 2018, UMG contributions to the ARP were approximately $7.0 million and $7.3 million, respectively. The liabilities as of June 30, 2019 and 2018 were approximately $413,000 and $426,000, respectively.

Upon separation from service, retirement, death or divorce (or alternate payee under a Qualified Domestic Relations Order), if the participant is age 55 or over and has more than 5 years of plan participation, a participant or designated beneficiary can withdraw a partial or lump cash payment, rollover to another eligible retirement plan or IRA, or receive installment payments or annuity payments.

Other ARP provisions are described in Title 5 – State Employees, Chapter 66 – State Employees Retirement Act of the Connecticut General Statutes.

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS*

In addition to the pension benefits, the State provides postemployment health care and life insurance benefits to UMG employees in accordance with State Statutes Sections 5-257(d) and 5-259(a). When employees retire, the State may pay up to 100% of their health care insurance premium cost (including dependents' coverage) based on the plan chosen by the employee. In addition, the State pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined by a formula based on the number of years of State service that the retiree had at the time of retirement.

### *GENERAL INFORMATION ABOUT THE SEOPEBP*

*Plan description* – The State's defined benefit OPEB plan, the SEOPEBP, provides OPEB benefits for qualifying employees in accordance with sections 5-257(d) to 5-259(a) of the Connecticut General Statutes. All of UMG's employees participate in the SEOPEBP. The plan is primarily funded on a pay-as-you-go basis. The contribution requirements of the State are established by and may be amended by the State legislature, or by agreement between the State and employee unions, upon approval by the State legislature. Costs are passed to UMG as part of its fringe benefit allocation, the rates for which are set each year by the State Comptroller's office. Information on the SEOPEBP's total funding status and progress, contributions required and trend information can be found in the State's Comprehensive Annual Financial Report on the State's website.

*Benefits provided* – The SEOPEBP provides health care and life insurance benefits to eligible retired State employees and their spouses.

*Employees covered by benefit terms* – Demographic data for individual State entities in the SEOPEBP are not readily available. At June 30, 2018 and 2017, the SEOPEBP in total covered the following:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefit payments | 74,579 |
| Inactive employees entitled to but not yet receiving benefit payments | 256 |
| Active employees | 49,538 |
| Total covered employees | 124,373 |

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *NET SEOPEBP LIABILITY*

UMG's OPEB liability of $202.3 million as of June 30, 2019 for its proportionate share of the net OPEB liability was measured as of June 30, 2018 based on an actuarial valuation that was rolled forward to June 30, 2019. UMG's OPEB liability of $189.2 million as of June 30, 2018 for its proportionate share of the net OPEB liability was measured as of June 30, 2017 based on an actuarial valuation that was rolled forward to June 30, 2018. UMG's proportion of the net OPEB liability was based on UMG's percentage of total overall contributions to the plan. At June 30, 2018 and 2017, UMG's proportion of contributions was 1.17% and 1.09%, respectively.

### *ACTUARIAL METHODS AND ASSUMPTIONS*

The total OPEB liability in the June 30, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 3.50% |
| Salary increases | 3.25% to 19.5% varying by years of service and retirement system |
| Discount rate | 3.95% as of June 30, 2018 and 3.68% as of June 30, 2017 |
| Healthcare cost trend rates | |
| Medical | 6.5% graded to 4.5% over 4 years |
| Prescription Drug | 8.0% graded to 4.5% over 7 years |
| Dental and Part B | 4.5% |
| Administrative Expense | 3.0% |
| Retirees' share of benefit-related costs | Contributions, if required, are determined by plan, employee start date, and benefit type |

The discount rate is a blend of long-term expected rate of return on OPEB Trust assets and a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher (3.95% as of June 30, 2018 and 3.68% as of June 30, 2017). The blending is based on the sufficiency of projected assets to make projected benefit payments.

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)*

Mortality rates for healthy personnel were based on the RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females. For disabled employees, the RP-2014 Disabled Mortality Table at 65% for males and 85% for females was used.

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2015.

### *CONTRIBUTIONS MADE*

The SEOPEBP contributions made to covered payroll is as follows:

| | 2019 | 2018 |
|---|---|---|
| Total UMG payroll covered by SEOPEBP | $ 80,717,114 | $ 77,724,585 |
| Total UMG SEOPEBP contributions | $ 10,901,925 | $ 9,396,044 |
| Contributions as a percentage of covered payroll | 13.51% | 12.09% |

### *CHANGES IN THE NET OPEB LIABILITY*

| | 2018 Net OPEB Liability | 2017 Net OPEB Liability |
|---|---|---|
| | *(in thousands)* | |
| Beginning balance | $ 189,230 | $ 187,721 |
| Changes for the year: | | |
| Service cost | 10,565 | 10,474 |
| Interest | 7,970 | 5,571 |
| Changes in assumptions or other inputs | (8,485) | (5,567) |
| Benefit payments | (7,597) | (6,969) |
| Change in proportionate allocation of OPEB liability | 10,610 | (2,000) |
| Net changes | 13,063 | 1,509 |
| Ending balance | $ 202,293 | $ 189,230 |

### NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

#### *SENSITIVITY OF UMG'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE*

The following table presents UMG's proportionate share of net OPEB liability using the discount rate of 3.95%, as well as the proportionate share of the net OPEB liability using a 1.00% increase or decrease from the current discount rate:

| | 1% Decrease (2.95%) | Discount Rate (3.95%) | 1% Increase (4.95%) |
|---|---|---|---|
| | | *(in thousands)* | |
| Net OPEB Liability | $ 234,645 | $ 202,293 | $ 176,021 |

#### *SENSITIVITY OF UMG'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES*

The following table presents the net OPEB liability of UMG, as well as what UMG's proportionate share of the net OPEB liability would be if it were calculated using health care cost trend rates that are 1% lower or 1% higher than the current health care cost trend rates:

| | | Healthcare Cost Trend Rates | |
|---|---|---|---|
| | 1% Decrease | Current Valuation | 1% Increase |
| | | *(in thousands)* | |
| Net OPEB Liability | $ 172,306 | $ 202,293 | $ 240,289 |

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB*

For the years ended June 30, 2019 and 2018, UMG recognized OPEB expense of $5.7 million and $4.0 million, respectively. At June 30, 2019 and 2018, UMG reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| | *(in thousands)* | | | |
| Changes in proportion | $ 12,008 | $ -- | $ 163 | $ -- |
| UMG contributions subsequent to measurement date | 10,902 | -- | 9,396 | -- |
| Changes in assumptions or other inputs | -- | 10,696 | -- | 4,540 |
| Net difference between projected and actual earnings | -- | 81 | -- | 214 |
| | $ 22,910 | $ 10,777 | $ 9,559 | $ 4,754 |

UMG contributions subsequent to the measurement date totaling $10.9 million reported as deferred outflows of resources will be recognized as a reduction of the OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in fringe benefits expense as follows:

| Years ending June 30: | Change in proportionate participation in OPEB plan | Net difference between projected and actual earnings on OPEB plan investments | Changes in assumptions or other inputs |
|---|---|---|---|
| | | *(in thousands)* | |
| 2020 | $ 2,725 | $ (2,652) | $ (34) |
| 2021 | 2,725 | (2,652) | (34) |
| 2022 | 2,725 | (2,652) | (33) |
| 2023 | 2,704 | (2,057) | 20 |
| 2024 | 1,129 | (683) | -- |
| Thereafter | -- | -- | -- |
| | $ 12,008 | $ (10,696) | $ (81) |

## NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

### *EXPECTED RATE OF RETURN ON INVESTMENTS*

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class in the SEOPEBP are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Large Cap U.S. Equities | 21% | 5.8% |
| Developed Non-U.S. Equities | 18% | 6.6% |
| Emerging Market (Non-U.S.) | 9% | 8.3% |
| Real Estate | 7% | 5.1% |
| Private Equity | 11% | 7.6% |
| Alternative Investments | 8% | 4.1% |
| Fixed Income (Core) | 8% | 1.3% |
| High Yield Bonds | 5% | 3.9% |
| Emerging Market Bond | 4% | 3.7% |
| Inflation Linked Bonds | 5% | 1.0% |
| Cash | 4% | 0.4% |
| | 100% | |

## NOTE 9 – RELATED PARTY TRANSACTIONS

The expenses reported in the accompanying statements of revenues, expenses, and changes in net position do not include undetermined amounts for salaries, services, and expenses provided to and received from UConn Health and other state agencies, other than certain UConn School of Medicine faculty-related personnel expenses which have been allocated to UMG based upon State funding and an estimated amount for UConn Health administrative services. Reference is made to note 1 related to medical malpractice costs paid to UConn Health.

UMG is party to an agreement with UConn Health whereby the salaries of certain employees are reimbursed by UConn Health operations. The reimbursed expenses are accounted for as a transfer from UConn Health under the heading “Net Transfers from UConn Health”. Unrestricted assets of $27,618,735 and $24,417,990 were transferred from UConn Health in 2019 and 2018, respectively. Management of UMG and UConn Health expect that this agreement will continue in the future.

## NOTE 9 – RELATED PARTY TRANSACTIONS (CONTINUED)

UConn Health also allocates working capital based on organizational need throughout the year on an as needed basis. UConn Health transferred $44,438,131 and $38,574,309 to UMG in 2019 and 2018, respectively. As a result, the total transfers from UConn Health were $72,056,866 and $62,992,299 for 2019 and 2018, respectively. During the years ended June 30, 2019 and 2018, UMG received other transfers totaling $704,000 and $302,228, respectively, from UConn Health related to workers' compensation appropriations.

As described in note 1 and note 8, UMG participates in certain State retirement and fringe benefit plans. During the years ended June 30, 2019 and 2018, UMG expensed $66,691,316 and $49,764,087, respectively, for employee fringe benefits including contributions to the State employee retirement funds. Related salary costs were $95,322,214 and $85,982,460, respectively.

Contributions to the State for an assessment of postemployment benefits other than pensions are included in fringe benefits expenses. As disclosed in note 2, UConn Health implemented GASB 75 during the year ended June 30, 2018. As a result, UMG has recorded its proportionate share of postemployment benefits, liabilities, and expenses.

Net patient service revenues and contract and other revenues include approximately $10,474,000 and $9,401,000 in 2019 and 2018, respectively, of professional service revenues arising under contracts with UConn Health, John Dempsey Hospital, and other State agencies.

Effective July 1, 1987, the Finance Corporation was established pursuant to Public Act No. 87-458. The purpose of the Finance Corporation is to provide greater flexibility for UMG and other UConn Health units to promote the more efficient provision of health care services. As such, Finance Corporation has been empowered to enter into purchase agreements, acquire facilities, approve write-offs of patient accounts receivable as well as negotiate joint ventures, shared service, and other agreements for the benefit of UMG.

UMG provided faculty to UConn Health in the form of administrative leadership and other support. As a result of these efforts, UConn Health reimbursed UMG for physician salaries during the years 2019 and 2018. The amounts received totaled approximately $4,900,000 million for each year, and were recorded as contract and other revenues in the statements of revenues, expenses, and changes in net position.

UMG's pension and OPEB liabilities (note 8) are owed to the State. The State finances pension and OPEB benefits on a pay-as-you-go basis through allocated retirement plan rates.

## NOTE 10 – SUBSEQUENT EVENTS

UMG has evaluated subsequent events through November 26, 2019, which represents the date the financial statements were available to be issued. No 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 UConn Medical Group (UConn Medical Group or Company), which comprise the statement of net position as of June 30, 2019 and the related 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 November 26, 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
November 26, 2019

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF CHANGES IN UMG'S NET PENSION LIABILITY AND RELATED RATIOS – STATE EMPLOYEES' RETIREMENT SYSTEM ONLY

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | | *(dollars in thousands)* | | |
| **Total Pension Liability** | | | | | |
| Service cost | $ 2,778 | $ 2,975 | $ 1,992 | $ 1,800 | $ 1,471 |
| Interest | 14,320 | 13,970 | 13,023 | 11,900 | 10,226 |
| Differences between expected and actual experience | -- | (8,945) | 4,779 | -- | -- |
| Changes of assumptions | 3,125 | -- | 30,671 | -- | -- |
| Benefit payments, including refunds of member contributions | (12,707) | (11,494) | (10,737) | (9,609) | (8,017) |
| Change in proportionate allocation of pension liability | 9,162 | 326 | 10,521 | 18,039 | -- |
| **Net Change in Total Pension Liability** | 16,678 | (3,168) | 50,249 | 22,130 | 3,680 |
| **Total Pension Liability** - Beginning | 204,722 | 207,890 | 157,641 | 135,511 | 131,831 |
| **Total Pension Liability** - Ending (a) | $ 221,400 | $ 204,722 | $ 207,890 | $ 157,641 | $ 135,511 |
| **Fiduciary Net Position** | | | | | |
| Contributions - employer | $ 9,338 | $ 9,553 | $ 9,287 | $ 7,953 | $ 6,492 |
| Contributions - employee | 1,255 | 821 | 835 | 1,086 | 741 |
| Net investment income | 5,668 | 9,352 | (1) | 1,706 | 7,385 |
| Benefit payments, including refunds of member contributions | (12,707) | (11,494) | (10,737) | (9,609) | (8,017) |
| Administrative expenses | (3) | (4) | (4) | -- | -- |
| Other | (20) | (2) | 530 | -- | -- |
| Change in proportionate allocation of fiduciary net position | 3,322 | 102 | 4,127 | 7,132 | -- |
| **Net Change in Fiduciary Net Position** | 6,853 | 8,328 | 4,037 | 8,268 | 6,601 |
| **Fiduciary Net Position** - Beginning | 74,213 | 65,885 | 61,848 | 53,580 | 46,979 |
| **Fiduciary Net Position** - Ending (b) | $ 81,066 | $ 74,213 | $ 65,885 | $ 61,848 | $ 53,580 |
| **UMG's Net Pension Liability** - Ending (a) - (b) | $ 140,334 | $ 130,509 | $ 142,005 | $ 95,793 | $ 81,931 |
| **UMG's portion of SERS Net Pension Liability** | 0.65% | 0.62% | 0.62% | 0.58% | 0.51% |
| **Fiduciary Net Position as a Percentage of the Total Pension Liability** | 36.62% | 36.25% | 31.69% | 39.23% | 39.54% |
| **UMG's Covered-Employee Payroll** | $ 27,090 | $ 26,025 | $ 25,860 | $ 23,424 | $ 19,273 |
| **UMG's Net Pension Liability as a Percentage of Covered-Employee Payroll** | 518.03% | 501.48% | 549.13% | 408.95% | 425.11% |

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF PENSION CONTRIBUTIONS TO THE STATE EMPLOYEES' RETIREMENT SYSTEM ONLY

*(dollars in thousands)*

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contributions | $ 12,966 | $ 9,338 | $ 9,553 | $ 9,366 | $ 7,953 | $ 6,492 | $ 5,672 | $ 4,958 | $ 5,053 | $ 4,804 |
| Contributions in relation to the contractually required contribution | 12,966 | 9,338 | 9,553 | 9,287 | 7,953 | 6,492 | 5,664 | 4,958 | 4,420 | 3,857 |
| Contribution deficiency | $ -- | $ -- | $ -- | $ 79 | $ -- | $ -- | $ 8 | $ -- | $ 633 | $ 947 |
| UMG's covered-employee payroll | $ 32,551 | $ 27,090 | $ 26,025 | $ 25,860 | $ 23,424 | $ 19,273 | $ 17,688 | $ 17,181 | $ 17,709 | $ 15,633 |
| Contributions as a percentage of covered-employee payroll | 39.83% | 34.47% | 36.71% | 35.91% | 33.95% | 33.68% | 32.02% | 28.86% | 24.96% | 24.67% |

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF CHANGES IN UMG'S NET OPEB LIABILITY AND RELATED RATIOS

| | 2018 | 2017 |
|---|---|---|
| | *(dollars in thousands)* | |
| **Net OPEB Liability** | | |
| Service cost | $ 10,565 | $ 10,474 |
| Interest | 7,970 | 5,571 |
| Changes of assumptions or other inputs | (8,485) | (5,567) |
| Benefit payments | (7,597) | (6,969) |
| Change in proportionate allocation of OPEB liability | 10,610 | (2,000) |
| **Change in Net OPEB Liability** | 13,063 | 1,509 |
| **Net OPEB Liability** - Beginning | 189,230 | 187,721 |
| **Net OPEB Liability** - Ending | $ 202,293 | $ 189,230 |
| **Covered-Employee Payroll** | $ 77,725 | $ 76,699 |
| **Total OPEB Liability as a Percentage of Covered-Employee Payroll** | 260.27% | 246.72% |

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF UMG'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| | *(dollars in thousands)* | | |
| UMG's proportion of the net OPEB liability | 1.11% | 1.09% | 1.09% |
| UMG's proportionate share of the net OPEB liability | $ 202,293 | $ 189,230 | $ 187,721 |
| UMG's covered-employee payroll | $ 77,725 | $ 76,699 | $ 79,921 |
| UMG's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 260.27% | 246.72% | 234.88% |
| Plan fiduciary net position (assets) | $ 849,889 | $ 542,342 | $ 340,618 |
| Plan fiduciary total OPEB liability | $ 18,114,287 | $ 17,904,922 | $ 17,583,045 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 4.69% | 3.03% | 1.94% |

# UNIVERSITY OF CONNECTICUT HEALTH CENTER
# UCONN MEDICAL GROUP

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF UMG'S OPEB CONTRIBUTIONS

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| | *(dollars in thousands)* | | | |
| Contractually required contribution | $ 10,902 | $ 9,396 | $ 7,274 | $ 6,626 |
| Contributions in relation to the contractually required contribution | 10,902 | 9,396 | 7,274 | 6,626 |
| Contribution deficiency (excess) | $ -- | $ -- | $ -- | $ -- |
| UMG's covered-employee payroll | $ 80,717 | $ 77,725 | $ 76,699 | $ 79,921 |
| Contributions as a percentage of covered-employee payroll | 13.51% | 12.09% | 9.48% | 8.29% |

### *CHANGES OF BENEFIT TERMS*

In the June 30, 2018 and 2017 actuarial valuations, there were no changes of benefit terms.

### *CHANGES OF ASSUMPTIONS*

In the June 30, 2018 and 2017 actuarial valuations, the discount rates were increased to more closely reflect the expected long-term rate of return, and the demographic assumptions were updated to match the most recent valuations or experience studies.