

UConn HEALTH

Financial Report
For the Year Ended June 30, 2017

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INTRODUCTORY SECTION

Letter of Transmittal

Founded in 1881, the University of Connecticut (the “University”) serves as the state’s flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research, and service. The University of Connecticut is a comprehensive institution of higher education which includes the University of Connecticut Health Center (“UConn Health”). Although governed by a single Board of Trustees, the University and UConn Health maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and State appropriations. UConn Health also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. The financial statements contained herein represent the transactions and balances of UConn Health only.

The University’s Board of Trustees is vested by law with fiscal oversight of the University. The operational authority granted to the University builds upon the successful implementation of several pieces of legislation known as the Flexibility Acts, enacted in the early 1990’s. These statutory changes enabled the University to become responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The University is now responsible for the budgetary allocation of its State appropriations, check-writing authority, human resource control, and purchasing authority with the advent of UCONN 2000 in 1995, management of capital activities, including projects for UConn Health starting in 2005.

While the University’s operational flexibility and capacity has grown, all of these activities also take place within a context of continuing vigilance. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. The Board of Trustees, through its Joint Audit and Compliance Committee, exercises oversight over all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to

augment the University’s internal audit capacity and the work performed by state auditors. As important component of external oversight, the Auditors of Public Accounts issue an Independent Auditors’ Report on the financial statements of UConn Health. They are responsible for auditing its financial operations and their opinion appears in this report.

UConn Health is an academic medical center composed of the School of Medicine, the School of Dental Medicine and their associated Education Clinics, John Dempsey Hospital, the UConn Medical Group, the University of Connecticut Finance Corporation and Correctional Managed Healthcare (CMHC). Established in 1961, UConn Health is dedicated to helping people achieve and maintain healthy lives and restoring wellness and health to the maximum attainable levels. In this quest, UConn Health will continuously enable students, professionals and agencies in promoting the health of Connecticut’s citizens. UConn Health will consistently pursue excellence and innovation in the education of health professionals; the discovery, dissemination and utilization of new knowledge; the provision of patient care; and the promotion of wellness.

With approximately 4,900 full time employees (FTE’s), UConn Health is one of Connecticut’s largest employers and an important contributor to the local and regional economy. UConn Health’s campus in Farmington is situated on 209 acres of wooded hilltop from which the skyline of Hartford, the capital of Connecticut, can be seen about eight miles to the east. (The University’s main campus is in Storrs, about 30 miles east of Hartford.) UConn Health’s campus includes 25 buildings totaling close to 2.8 million square feet.

Educational Programs

Dedicated to providing broad educational opportunities in the biomedical sciences, UConn Health offers degree programs in medicine (M.D.), dental medicine (D.M.D.), and biomedical science (Ph.D.); master’s degree programs in public health and dental science; postdoctoral fellowships; residency programs providing specialty training for newly graduated physicians and dentists; and continuing education programs for practicing health care professionals.

Combined degree programs, such as the M.D./Ph.D., D.M.D./Ph.D., Dental Clinical Specialty/Ph.D. and M.D./M.P.H. are also offered.

UConn Health is the only academic health center in the nation where a medical school was founded concurrently with a dental school, a circumstance which has led to strong links. Medical and dental students share an essentially common curriculum during the first two years of their four-year degree programs and study the basic medical sciences together. This experience provides UConn's dental students with an especially strong foundation in the biomedical sciences, reflected in the dental school's decision to award its graduates the D.M.D. (Doctor of Medical Dentistry).

Each year at UConn Health, approximately 400 students work toward the medical doctor's degree and 180 toward the doctor of medical dentistry degree. Admission to each school is highly competitive; both schools offer preferential consideration to qualified Connecticut residents in their admissions policies. School of Dental Medicine students have a long history of outstanding performance on the National Boards. In the years since UConn Health graduated its first students in 1972, 2,593 men and women have received the D.M.D. degree; 4,282 the M.D. degree.

Through a variety of residency programs, the School of Medicine provides postgraduate training for more than 600 newly graduated M.D.s each year. These physicians come from all over the country to acquire advanced skills in fields such as the surgical specialties, internal medicine, and primary care. Some of the residency training occurs on UConn Health's main campus, but much of it takes place in community hospitals in Greater Hartford, thereby extending UConn Health's positive impact on the region.

Research Programs

Since UConn Health's inception, high-quality research programs have been part of the institution's fabric. This history has enabled UConn Health to recruit distinguished researchers with expertise in neuroscience, molecular biology, molecular pharmacology,

biochemistry, cell physiology, toxicology, and endocrinology, among other fields. The Alcohol Research Center is one of only twenty seven such federally supported centers in the nation; the Connecticut Clinical Chemosensory Research Center, one of ten. In recent years, UConn Health has also become a leader in stem cell research. Clinical research is facilitated by the Lowell Weicker General Clinical Research Center and the Clinical Trials Unit. Research awards were over \$80.0 million in fiscal 2017.

Health Care Services

Through John Dempsey Hospital (234 licensed beds, 193 staffed acute care beds), UConn Health provides specialized and routine inpatient and outpatient services, including comprehensive cardiovascular, cancer and musculoskeletal services, as well as, high risk maternity and neonatal intensive care. John Dempsey Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley and contributes to the region's health in other ways. UConn Medical Group, one of the largest medical practices in Greater Hartford, offers primary care and services in more than 50 specialties.

While the hospital and faculty practice continue to have strong volume, the challenges of the health care marketplace (recruitment, increased competition, malpractice costs, and low reimbursement) are a continuing challenge. John Dempsey Hospital's financial health is also directly affected by its size, bed distribution, poorly reimbursed services provided as part of its public mission, and cost factors resulting from its status as a state entity.

Connecticut Health

UConn Health faculty, staff, residents, and students participate in a variety of joint efforts to address public health and community health needs of citizens throughout our state. Under the umbrella of Connecticut Health, hundreds of projects have been developed in collaboration with other state agencies, city and town governments, community-based organizations and the public to serve the poor and uninsured by providing better medical care and health education. UConn Health is committed to finding

new and effective ways to reach out to the public as part of UConn Health's ongoing effort to bring a better quality of life to all our citizens.

Economic Condition

Connecticut's expenses exceed revenues at the State level, causing large and continuing overall budget deficits. The growth in expenses is largely due to the State's unfunded pension liability, debt service, and growth in other services. For the biennium fiscal years 2018 and 2019, the budget process was extremely difficult with the State Legislature not passing a budget bill until well into the current fiscal year. After an initial budget was vetoed by the Governor, the biennial budget was approved by the State legislature and signed into law by the Governor. The final budget reduced the amount of expected State Support by an estimated amount greater than \$36 million over the next two years compared to the amount of State Support realized in 2017. This cut compared to our temporary spending plan approved by the Board has an \$11 million impact to the bottom line which management is confident can be absorbed by operations based on favorable first quarter 2018 results. UConn Health will continue to focus on protecting academic excellence, delivering strong student support, providing excellent patient care, and supporting the research mission.

Awards and Acknowledgements

This year was UConn School of Medicine's first class to experience a newly launched, innovative curriculum to better prepare doctors for the rapidly changing health care landscape known as MDelta (Making a Difference in Education, Learning, and Teaching Across the curriculum) based on the principles of lifelong learning, patient-centered care, and collaborative teamwork.

Thanks to the investments from UConn Health and the State of Connecticut's Bioscience Connecticut initiative, medical and dental students began this curriculum in a new 17,000-square-foot facility featuring a renovated academic entrance and a brand-new, high-tech rotunda.

The Medical School's ranking among top medical schools across the country in U.S. News & World Report's March 2017 listing has jumped

to #34 in primary care from #50 last year and in research to #56 from #63. Plus, UConn School of Dental Medicine was named the winner of the 2016 William J. Gies Award for Outstanding Achievement by an Academic Dental Institution, one of the most preeminent awards in dental education.

Also, the new hospital tower at UConn John Dempsey Hospital, thanks to Bioscience CT and UConn Health investments, celebrated its one-year anniversary in May 2017. UConn Health also increased patient volumes, revenues, and market share. Its clinical care has grown to more than 650,000 outpatient appointments, 9,200 inpatients, 34,000 emergency room visits and more than 132,000 additional patient visits conducted at our community sites.

While advancing medicine and education, our staff of 624 faculty, doctors and educators also contribute to the advancement of medicine through innovative scientific research and clinical trials. In fact, UConn Health scientists were awarded in fiscal year 2017 over \$80.0 million in research funding which includes a large portion from the National Institutes of Health.

For the third consecutive year, UConn John Dempsey Hospital was awarded the highest A-rating in patient safety by National The Leapfrog Group. Receiving the top A-ranking in patient safety in 2015, 2016, and again in 2017 recognizes UConn John Dempsey's continued excellence in meeting the highest U.S. safety standards in keeping our patients safe from medical errors, infections, and other harms.

UConn Health also received several high honors for patient care excellence across cardiovascular medicine. UConn Health and UConn John Dempsey Hospital received three 'Gold Plus' level awards for continued excellence in stroke, heart failure, and STEMI heart attack patient care by The American Heart Association and the American Stroke Association. Also, for its excellence, UConn Health was designated by the Pulmonary Hypertension Association (PHA) as a Pulmonary Hypertension Regional Clinical Program due to its infrastructure and expertise.

Furthermore, for our youngest patients, at 99.1 percent UConn John Dempsey Hospital has the highest Hepatitis B birth dose vaccination rate for newborns among all Connecticut hospital,

soaring high above the 83.5 percent statewide average, according to the latest data of the Connecticut Department of Public Health's Immunization Program released in July 2017.

Respectfully Submitted,



Scott Jordan
Executive Vice President for Administration &
Chief Financial Officer
University of Connecticut



Jeffrey P. Geoghegan
Chief Financial Officer

UConn Health

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DIRECTORS AND FINANCIAL OFFICERS
June 30, 2017

BOARD OF DIRECTORS

**Members at
Large**

Dr. Kenneth Alleyne	<i>Bloomfield</i>
Francis X. Archambault, Jr.	<i>Storrs</i>
Richard M. Barry	<i>Avon</i>
Cheryl A. Chase	<i>Hartford</i>
John F. Droney	<i>W. Hartford</i>
Timothy A. Holt	<i>Glastonbury</i>
Wayne Rawlins	<i>Cromwell</i>
Charles W. Shivery	<i>Avon</i>

Appointed by the Governor

Kathleen D. Woods	<i>Avon</i>
Teresa M. Ressel	<i>New Canaan</i>
Joel Freedman	<i>S. Glastonbury</i>

Members Ex Officio

Susan Herbst	<i>Storrs</i>
Robert S. Dakers	<i>Glastonbury</i>
Raul Pino	<i>Hartford</i>

Appointed by Chairperson, Board of Trustees

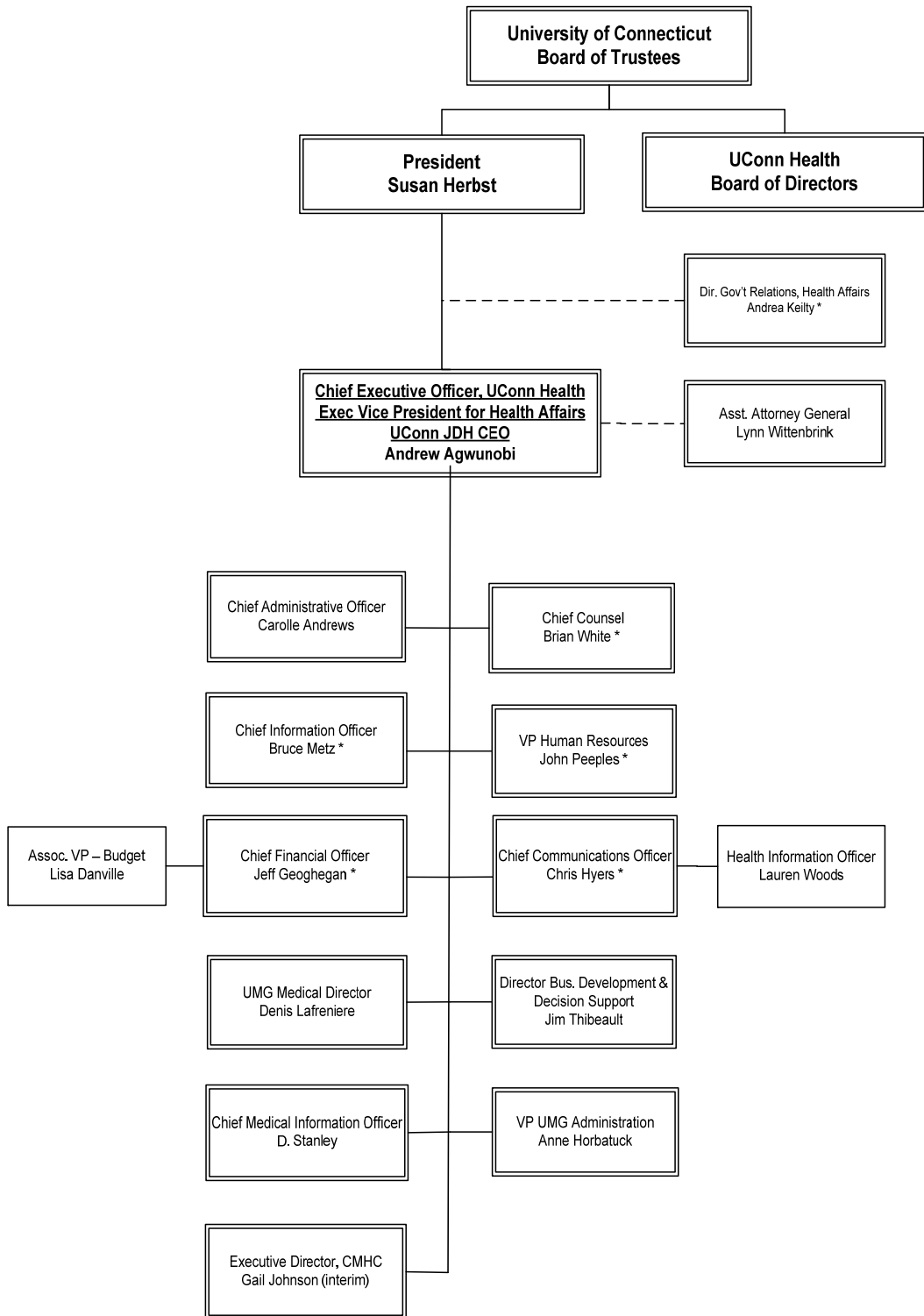
Sanford Cloud Jr, Chairperson	<i>Farmington</i>
Andy F. Bessette	<i>W. Hartford</i>
Richard T. Carbray, Jr.	<i>Rocky Hill</i>

FINANCIAL OFFICERS

Scott A. Jordan, Executive Vice President for Administration and Chief Financial Officer
Jeffrey P. Geoghegan, Chief Financial Officer
Chad A. Bianchi, Controller



ORGANIZATIONAL CHART



SENIOR ADMINISTRATION
* indicates dual reporting with Storrs

FINANCIAL SECTION

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

STATE CAPITOL
20 TRINITY STREET
HARTFORD, CONNECTICUT 06106-1559

ROBERT J. KANE

INDEPENDENT AUDITORS' REPORT

Board of Directors of the
University of Connecticut Health Center

Report on Financial Statements

We have audited the accompanying financial statements of the University of Connecticut Health Center (UConn Health), a component unit of the University of Connecticut system, which includes the University of Connecticut, UConn Health and the University of Connecticut Foundation, Inc. The accompanying financial statements, which consist of the statements of net position as of June 30, 2017 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, which collectively comprise UConn Health'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the John Dempsey Hospital, which represented 36% of the assets of UConn Health as of June 30, 2017 and 38% of the revenues of UConn Health for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the John Dempsey Hospital, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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, based upon our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of UConn Health, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying Management Discussion and Analysis on pages 14 through 24 and the Required Supplementary Information on pages 50 through 52 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Sincerely,



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor

December 14, 2017
State Capitol
Hartford, Connecticut

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of the University of Connecticut Health Center ("UConn Health") for the year ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1881, the University of Connecticut (the "University") serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education, which includes UConn Health.

The financial statements presented here represent the transactions and balances of UConn Health only. UConn Health offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. UConn Health's component parts are the School of Medicine, the School of Dental Medicine, and their associated Educational Clinics, UConn Medical Group, the University of Connecticut Finance Corporation, Correctional Managed Healthcare (CMHC), and John Dempsey Hospital ("the Hospital"). UConn Health's enrollment in fiscal year 2017 was 408 students in the School of Medicine, 179 in the School of Dental Medicine, and 314 Graduate students, taught by over 500 faculty members. UConn Health finished fiscal 2017 with 4,908 FTE's. John Dempsey Hospital (JDH) has 193 staffed acute care beds. In fiscal year 2017, adjusted patient days (a measure of total hospital volume) were 110,673, a 5.8% increase from the prior year. During 2017, UConn Medical Group (UMG) had 658,205 unique patient visits, a .2% increase. The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview and analysis of those statements. It is designed to assist readers in understanding the accompanying financial statements required by GASB. This discussion, which is unaudited, includes an analysis of the financial condition and results of activities of UConn

Health for the fiscal year ended June 30, 2017, based on currently known facts, decisions, and conditions. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of Management's Discussion and Analysis and the financial statements. The basic financial statements (statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows) present the financial position of UConn Health at June 30, 2017, and the results of operations and financial activities for the year then ended. These statements report information about UConn Health using accounting methods similar to those used by private-sector companies. The statement of net position include all of UConn Health's assets and liabilities. The statement of revenues, expenses and changes in net position reflect the year's activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not when cash is received or paid. This statement reports UConn Health's net assets and how they have changed. Net position (the difference between assets and liabilities) is one way to measure financial health or position. The statement of cash flows provides relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, noncapital financing and capital and related financing activities. The financial statements include notes that explain information in the financial statements and provide more detailed data.

FINANCIAL HIGHLIGHTS

UConn Health's financial position at June 30, 2017, consisted of assets of \$1.30 billion and liabilities of \$1.63 billion. Net assets, which represent the residual interest in UConn Health's assets after liabilities are deducted, decreased \$59.5 million in

fiscal 2017 after capital appropriations and other changes in net position.

The decrease in net position is attributable to additional pension liability booked under GASB 68. Operating losses and the additional pension liability booked under GASB 68 were only partially offset by Capital Appropriations and non-operating revenues including State Appropriations. Expenses associated with Capital Appropriations will be borne in the future through increased depreciation expenses.

The financial statements contained herein show an operating loss of \$374.1 million for the year ending June 30, 2017 (fiscal year 2017). The measure more indicative of normal and recurring activities is net income before Other Changes in Net Position, which includes revenue from State Appropriations. Additions to capital assets are, in a large part, funded by capital appropriations from the state and issuance of UCONN 2000 bond funds (included in the Other Changes in Net Position above), which are not included as revenues in this measurement. However, depreciation expense on those assets is included as an expense in calculating operating income, so a loss under this measurement is expected. UConn Health experienced a loss before Other Changes in Net Position of \$101.9 million in fiscal year 2017.

Some sources of recurring operating and non-operating revenues increased in 2017, including patient service revenue and contract and other operating revenue. These categories are expected to have slight increases in 2018. State support, not including state funded capital appropriations, decreased 3.8% in fiscal 2017. Decreases in state support are expected in the upcoming fiscal year due to ongoing efforts by the state to reduce expected budget shortfalls. The 2018-2019 biennial budget reduced the amount of block grant appropriations to UConn Health to \$122.4 million and \$123.0 million for 2018 and 2019, respectively. In addition, we have already received an additional lapse reduction of \$4.7 million in fiscal year 2018.

STATEMENTS OF NET POSITION

The summary statements of net position below present the financial position of UConn Health at the end of the fiscal years 2017 and 2016; it includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of UConn Health. Net position represents assets plus deferred outflows, less liabilities and deferred

inflows. Assets represent what is owned by or what is owed to UConn Health. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A deferred outflow of resources represents the consumption of net assets by UConn Health that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net assets by UConn Health that is applicable to a future reporting period. UConn Health's net position is the residual value in UConn Health's assets and deferred outflows, after liabilities and deferred inflows are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year.

The total assets of UConn Health increased by \$7.0 million, or .5%, over the prior year. The increase was primarily attributable to increases in Property, Plant and Equipment, which is the result of continued capital expansion at UConn Health including the new University Tower at John Dempsey Hospital.

Due from affiliates decreased by \$76.6 million or 86.9% from 2016. This change occurs as UConn Health continues spending on construction related to UConn 2000 construction initiatives.

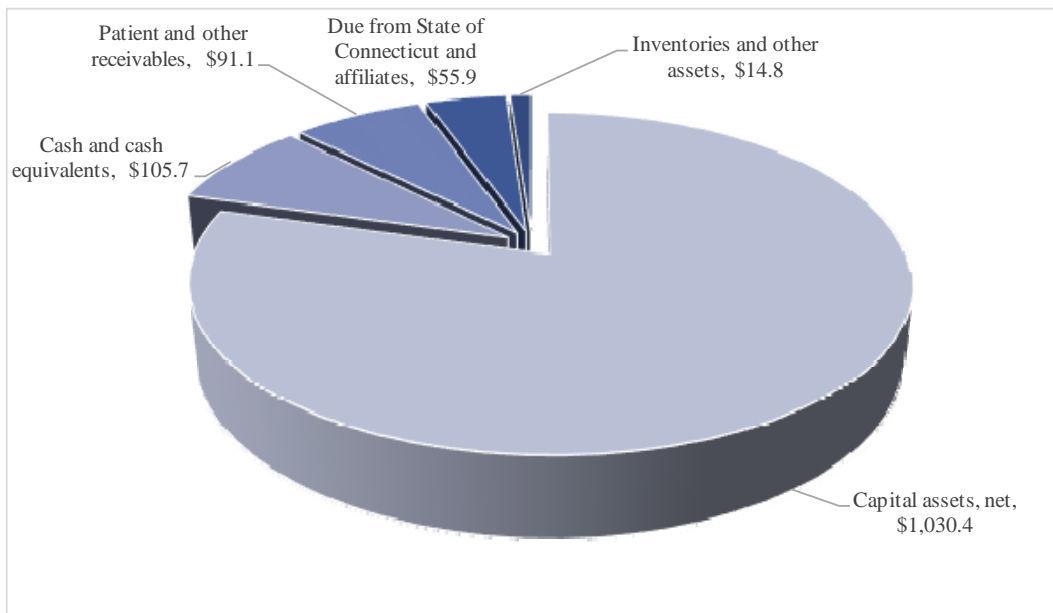
Total liabilities increased by \$353.2 million or 27.8% from 2016. The driver of the increase was the addition of \$359.0 million in pension liability due primarily to changes in State retirement plans. The combination of the increase in total assets of \$7.0 and total liabilities of \$353.2 million, offset by the net addition of \$286.7 million in deferred inflows/outflows yielded a decrease in total net position of \$59.5 million.

Deferred outflows of resources increased \$296.9 million and deferred inflows of resources increased \$10.2 million mainly due to pension related adjustments, including changes in assumptions, increases from differences between expected versus actual experience, and investment losses offset by a decrease of amortization of changes in proportion.

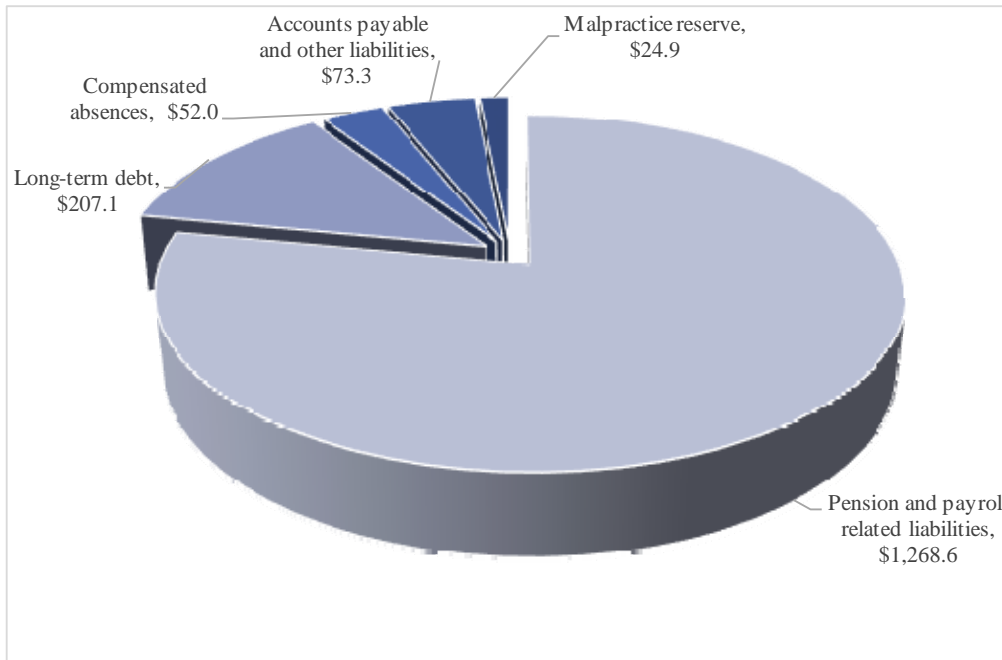
The following table shows a Condensed Schedule of Net Position at June 30 (\$ in millions):

	2017	2016	\$ Change	% Change
Assets:				
Current assets	\$ 240.2	\$ 321.8	\$ (81.6)	-25.4%
Capital assets, net	1,030.4	945.2	85.2	9.0%
Other noncurrent assets	27.3	23.9	3.4	14.2%
Total assets	1,297.9	1,290.9	7.0	0.5%
Deferred outflows of resources	464.5	167.6	296.9	177.1%
Liabilities:				
Current Liabilities	141.8	136.1	5.7	4.2%
Noncurrent liabilities	1,484.1	1,136.6	347.5	30.6%
Total liabilities	1,625.9	1,272.7	353.2	27.8%
Deferred inflows of resources	10.2	-	10.2	100.0%
Net position:				
Net investment in capital assets	823.3	734.5	88.8	12.1%
Restricted nonexpendable	0.1	0.1	-	0.0%
Restricted expendable	37.0	117.5	(80.5)	-68.5%
Unrestricted	(734.1)	(666.3)	(67.8)	10.2%
Total net position	\$ 126.3	\$ 185.8	\$ (59.5)	-32.0%

The following graph shows total assets of \$1.30 billion by major category as of June 30, 2017 (\$ in millions):



The following graph shows total liabilities of \$1.63 billion by major category as of June 30, 2017 (\$ in millions):



Net Position

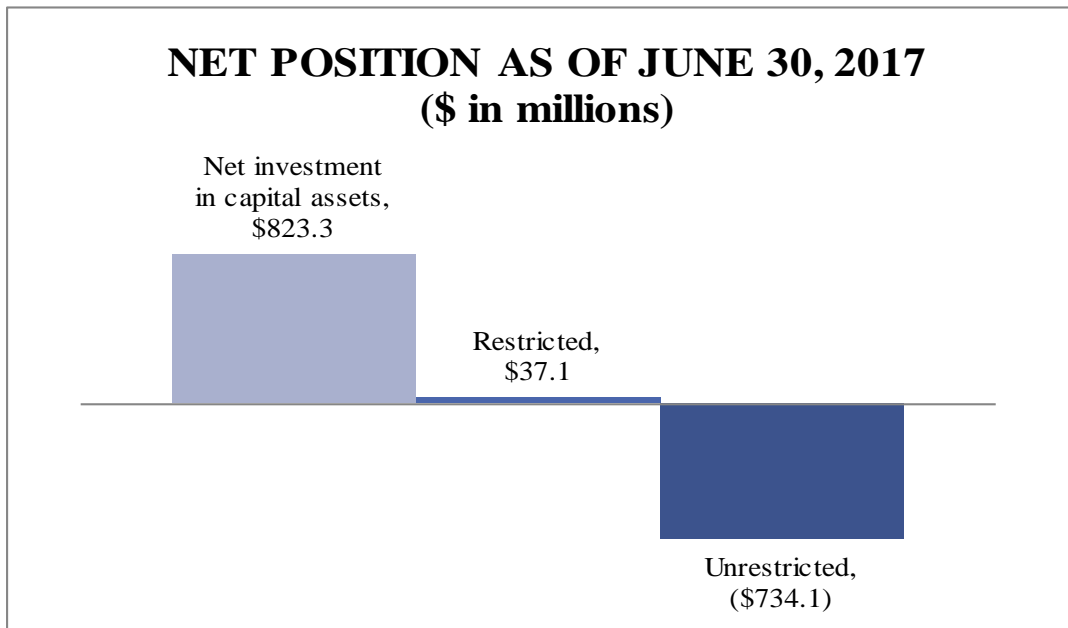
Net position is divided into three major categories. The first category, net investment in capital assets, represents UConn Health’s equity in property and equipment. The second category, restricted net position, is subdivided into nonexpendable and expendable. The corpus of restricted nonexpendable resources is only available for investment purposes and is included with investments on UConn Health’s Statement of Net Position. Expendable restricted net position is available for expenditure by the institution. However, it must be spent for purposes determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position, representing funds available to UConn Health for any lawful purpose of the institution. Generally, unrestricted funds are internally assigned to academic, clinical and research programs, capital programs, retirement of debt, and auxiliary enterprise activities. The Statement of Net Position presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of UConn Health as of the end of the fiscal year. The Statement of Net Position is a point in time financial statement and is used as a measure of the financial condition of UConn Health. This statement

presents a snapshot concerning assets, classified as current (expected to be available for use within one year) and noncurrent (expected to be available beyond one year), liabilities, categorized as current (expected to mature and due within one year), and noncurrent (expected to mature and due after one year), and net position.

Assets represent what is owned by or what is owed to UConn Health, including payments made to others before a service was received. Assets are recorded at their current value except for property and equipment, which is recorded at historical cost net of accumulated depreciation and amortization. Liabilities represent what is owed to others or what has been received from others prior to services being provided by UConn Health. A deferred outflow of resources represents the consumption of net assets by UConn Health that is applicable to a future reporting period, whereas, a deferred inflow of resources is an acquisition of net assets by UConn Health that is applicable to a future reporting period.

UConn Health’s net position is the residual value in UConn Health’s assets and deferred outflows after liabilities and deferred inflows are deducted. Changes in net position over time are a relative indicator of UConn Health’s financial ability.

The following graph shows net position by major category:



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents either an increase or decrease in net position based on revenues received, the expenses paid, and any other gains and losses recognized by UConn Health. Revenues and expenses are classified as operating, non-operating, or other changes in net position according to definitions prescribed by GASB.

Generally, operating revenues are earned when providing goods and services to the various customers of UConn Health. Operating expenses are incurred in the normal operation of UConn Health and represent those expenses paid to acquire or produce the goods and services provided in return for operating revenues. Operating expenses also include the provision for allocated depreciation and amortization of property and equipment. The

difference between operating revenues and expenses is the operating income or loss.

By its very nature, a state funded institution does not receive tuition and fees revenue, research awards or clinical program revenue sufficient to support its operations. Non-operating revenues are revenues received for which goods and services are exchanged. These revenues are essential to the continued provision of programs and services by UConn Health. Significant recurring sources of non-operating revenues utilized in balancing the operating loss each year include appropriations from the State of Connecticut (State) for general operations and investment income.

Other changes in net position are composed of capital appropriations and losses on disposal.

The statements of revenues, expenses and changes in net position present UConn Health's results of operating and non-operating activities. A summary of UConn Health's revenues, expenses and changes in net assets for the years ended June 30, 2017 and 2016 is presented below:

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues:				
Student tuition and fees (net of scholarship allowances)	\$ 17.5	\$ 15.7	\$ 1.8	11.5%
Patient services	539.8	532.9	6.9	1.3%
Federal grants and contracts	58.1	59.6	(1.5)	-2.5%
Nonfederal grants and contracts	29.0	27.1	1.9	7.0%
Contract and other operating revenues	114.3	108.0	6.3	5.8%
Total operating revenues	<u>758.7</u>	<u>743.3</u>	<u>15.4</u>	<u>2.1%</u>
Operating expenses:				
Instruction	169.1	168.3	0.8	0.5%
Research	59.4	58.2	1.2	2.1%
Patient services	713.3	648.1	65.2	10.0%
Academic support	19.2	18.1	1.1	6.1%
Institutional support	82.2	80.6	1.6	2.0%
Operations and maintenance of plant	37.3	38.7	(1.4)	-3.6%
Depreciation and amortization	52.1	41.5	10.6	25.5%
Student aid	0.2	0.1	0.1	100.0%
Total operating expenses	<u>1,132.8</u>	<u>1,053.6</u>	<u>79.2</u>	<u>7.5%</u>
Operating Loss	<u>(374.1)</u>	<u>(310.3)</u>	<u>(63.8)</u>	<u>20.6%</u>
Nonoperating revenues (expenses):				
State appropriations	278.2	289.3	(11.1)	-3.8%
Gifts	4.1	6.9	(2.8)	-40.6%
Investment income (net of investment expense)	0.1	0.1	(0.0)	0.0%
Interest on capital asset - related debt	(10.2)	(10.5)	0.3	-2.9%
Net nonoperating revenues	<u>272.2</u>	<u>285.8</u>	<u>(13.6)</u>	<u>-4.8%</u>
Loss before other changes in net position	<u>(101.9)</u>	<u>(24.5)</u>	<u>(77.4)</u>	<u>315.9%</u>
Other changes in net position:				
Capital appropriations	43.4	175.0	(131.6)	-75.2%
Loss on disposal	(1.0)	(0.7)	(0.3)	42.9%
Net other changes in net position	<u>42.4</u>	<u>174.3</u>	<u>(131.9)</u>	<u>-75.7%</u>
Increase in net position	<u>(59.5)</u>	<u>149.8</u>	<u>(209.3)</u>	<u>-139.7%</u>
Net position-beginning of year, as adjusted	185.8	36.0	149.8	416.1%
Net position-end of year	<u>\$ 126.3</u>	<u>\$ 185.8</u>	<u>\$ (59.5)</u>	<u>-32.0%</u>

Revenue

Revenue highlights for the year ending June 30, 2017, including operating and non-operating revenues, presented on the Statements of Revenues, Expenses, and Changes in Net Position are as follows:

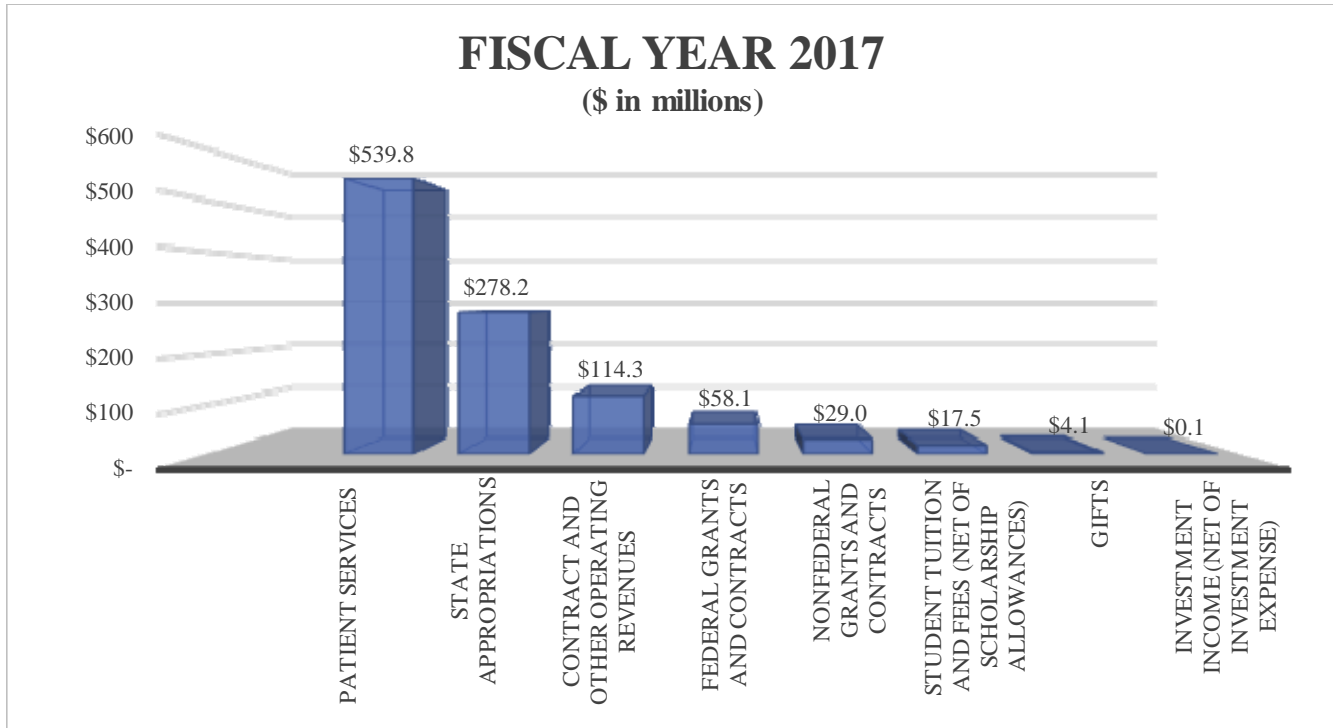
The largest source of revenue was patient service revenue. Net Patient service revenue increased \$6.9 million or 1.3% over prior year. Prior to eliminations the increase in net patient service revenue for John Dempsey Hospital was \$15.8 million. Increases in John Dempsey Hospital reflect higher surgical and outpatient volumes and strategic rate increases

throughout the Hospital’s lines of service. The UConn Medical Groups net revenue increased \$539,000.

UMG’s increases reflect changes in patient mix and UMG’s focus on contracted rates. The Correctional Managed Health Care program revenue decreased by \$8.6 million compared to prior year. This decrease was attributed to lower operational costs of the

program. More detailed information about UConn Health’s patient revenue is presented in note 4 of the financial statements.

The State Appropriation (including In Kind Fringe Benefits), which is included in non-operating revenues, totaled \$278.2 million. This represents a 3.8% decrease over the prior year.



Expenses

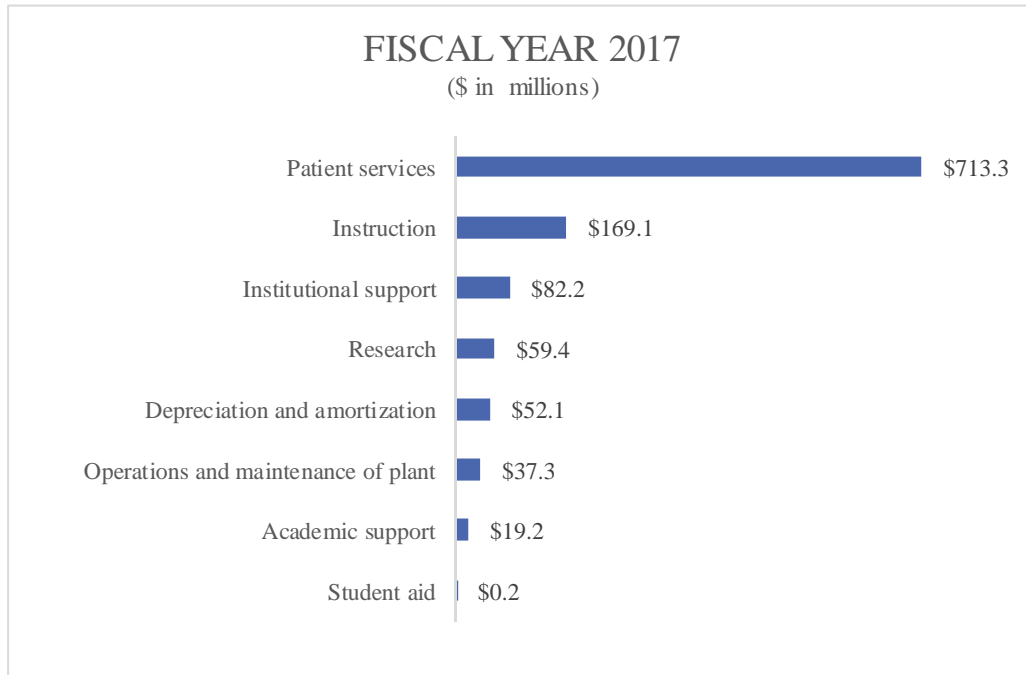
Highlights of expenses including operating and non-operating expenses presented on the Statements of Revenues, Expenses and Changes in Net Position are as follows:

Patient service expense is the largest expense category for UConn Health; it accounts for 63.0% of total operating expenses. It increased by \$65.2 million or 10.0% over the prior year. The increase

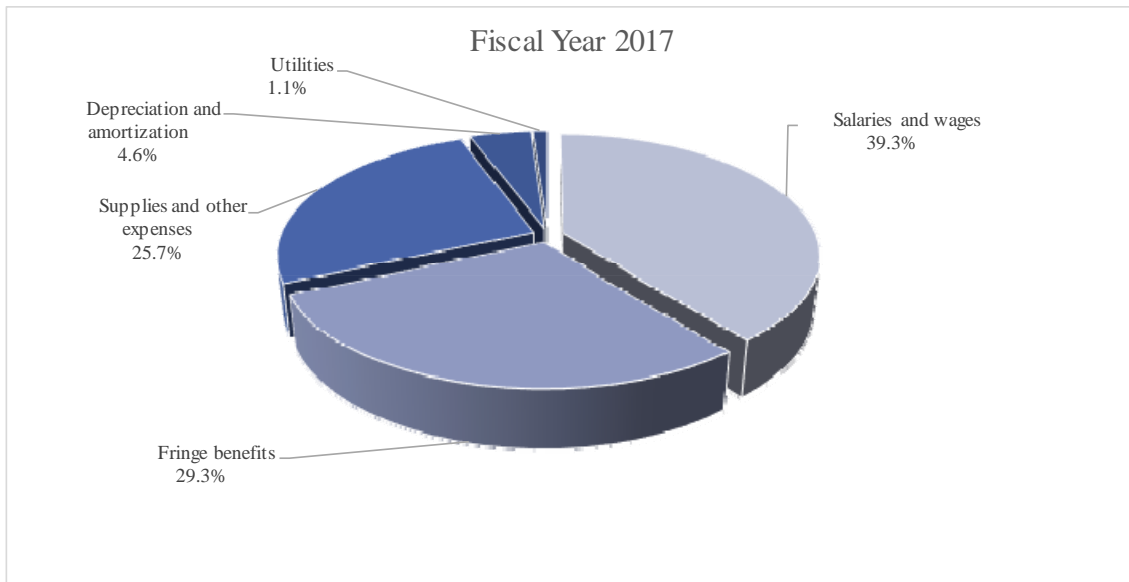
was driven by expenses to support the additional clinical volume in JDH and UMG.

Depreciation and amortization expenses, which comprise about 4.6% of total expenses, grew to \$52.1 million from \$41.5 million reported in fiscal 2016. The increase was primarily due to increases in depreciable assets, including the New Hospital Tower and the continued depreciation of Outpatient Pavilion.

The following graph shows the functional expenses of UConn Health (\$ in millions):



UConn Health's operating expenses by natural classification are presented below:



STATEMENTS OF CASH FLOWS

The Statement of Cash Flows presents detailed information about the cash activity of UConn Health during the year. The first section of this Statement, Cash Flows from operating activities, will always be different from the operating loss amount on the Statement of Revenues, Expenses, and Changes in Net Position. The difference results from non-cash items such as depreciation and amortization expense and the use of the accrual basis of accounting in preparing the Statement of Revenues, Expenses and Changes in Net Position. The Statement of Cash Flows, on the other hand, shows cash inflows and outflows without regard to accruals.

The Statement of Cash Flows has four additional sections. The second section consists of cash flows from investing activities showing the purchases,

proceeds, and interest provided from investing activities. The third section reflects cash flows from non-capital financing activities including State Appropriation, debt transactions, gifts, and other non-operating revenues and expenses. The fourth section shows cash flows from capital and related financing activities. The final section is a reconciliation of the operating loss shown on the Statement of Revenues, Expenses and Changes in Net Position to net cash used in operating activities.

The Statements of Cash Flows below provides additional information about UConn Health'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, 2017 and 2016, is as follows:

	(in millions)			
	2017	2016	\$ Change	% Change
Cash received from operations	\$ 758.5	\$ 750.9	\$ 7.6	1.0%
Cash expended for operations	(862.5)	(846.5)	(16.0)	1.9%
Net cash used in operating activities	(104.0)	(95.6)	(8.4)	8.8%
Net cash provided by investing activities	0.1	0.1	-	0.0%
Net cash provided by noncapital financing activities	140.1	152.3	(12.2)	-8.0%
Net cash used in capital and related financing activities	(30.5)	(49.8)	19.3	-38.8%
Net increase/(decrease) in cash and cash equivalents	5.7	7.0	(1.3)	-18.6%
Cash and cash equivalents, beginning of the year	100.0	93.0	7.0	7.5%
Cash and cash equivalents, end of the year	\$ 105.7	\$ 100.0	\$ 5.7	5.7%

CAPITAL ACTIVITIES

Capital assets, net of accumulated depreciation, consisted of the following (\$ in millions):

	2017	2016	\$ Change	% Change
Land	\$ 13.5	\$ 13.5	\$ (0.0)	0.0%
Construction in Progress	329.4	256.5	72.9	28.4%
Buildings and Building Improvements	607.6	600.6	7.0	1.2%
Equipment	77.6	74.6	3.0	4.0%
Capital Leases	2.3	0.0	2.3	100.0%
Capital assets, net	\$ 1,030.4	\$ 945.2	\$ 85.2	9.0%

Construction in progress increased approximately \$73.0 million driven by continued progress on UCONN 2000 construction initiatives and UConn Health's EMR system build.

As mentioned above, the UConn 2000 program has had a dramatic impact on our campus. This is the third phase of the program also known as 21st Century UCONN, which provides for improvements to facilities at the University and UConn Health. UConn Health is scheduled to receive \$775.3 million over the life of this program. UConn Health received \$27.5 million capital appropriations during 2017 from the UCONN 2000 bond issuance.

During 2017 and 2016, UConn Health received \$16 million and \$25 million, respectively, from the State Bond Commission for UConn Health's EMR; which was included in the capital appropriation line in the Statements of Revenues, Expenses, and Changes in Net Position.

UConn Health's fiscal 2018 capital funding requests will be considered for funding by the senior executive committee of UConn Health on an individual basis.

DEBT ACTIVITIES

JDH entered into two capital lease agreements, an MRI machine and a Lab equipment system during fiscal year 2017 for approximately \$2.5 million. Scheduled lease payments began in 2017. More detailed information about UConn Health's capital assets and debt activities are presented in notes 9 and 10 of the financial statements.

UConn Health continued payments on the Outpatient Pavilion and UConn Musculoskeletal Institute (formerly the Medical Arts and Research Building) during the year.

BIOSCIENCE CONNECTICUT

Progress on the construction work related to the Bioscience Connecticut initiative continued. The construction of the corridor connecting the University Tower to the Main Building, which was the final phase of the John Dempsey Hospital University Tower project, was completed in November, 2016. The Main Building Lab Renovations – Phase 2 was completed in March, 2017. The Academic Building Addition and Renovation project is in the final phase and all work

was completed in October 2017. Phase 1 of the Clinical Building Renovations is nearing final completion, and Phase 2 work began in September 2017. The final phases of work are scheduled to be complete at the end of 2018.

FISCAL YEAR 2018 OUTLOOK

As we look forward to fiscal year 2018, UConn Health's appearance and facilities have been transformed by the State's Bioscience Connecticut initiative. Our stunning new Outpatient Pavilion and University Tower position UConn Health to compete aggressively to be the provider of choice not only in the Farmington Valley but throughout Connecticut. Our new advertising campaign, The Power of Possible, harnesses this optimism.

Research, education, and patient care remain the cornerstones of our mission. Each of these areas contain their own unique challenges. They also share in the uncertainty surrounding both local and national government and funding opportunities.

The competition for researchers and grants is increasingly active. Even with our collaboration with Jackson Laboratories, attracting top talent, and the funding opportunities that come with them, can be difficult and expensive.

Clinically, healthcare reform and shifting regional and national dynamics continue to change the way hospitals serve their communities. As a result UConn Health will continue to explore the possibility of public private partnerships that may be beneficial to the finances and operations of the Clinical Programs and UConn Health as a whole. We continue to seek ways to increase our patient volumes while adapting to changing population demographics, needs and treatment demands. Management believes that our new facilities and advertising campaign provide UConn with the resources it needs to compete effectively in the marketplace.

UConn Health has begun installation of UConn Health One, an EPIC product. UConn Health is about three quarters through its installment with a target date of April 28, 2018. The installation will result in a new medical records system at both John Dempsey Hospital and UMG, linking patients via a single electronic health record (EHR) and positions JDH for compliance with the third stage of meaningful use requirements.

This endeavor creates additional opportunities to improve revenue cycle related operations, and as a result anticipate a reevaluation of clinical business office functions and other potential operational changes to best leverage this tool and our investment in the technology. This is particularly crucial to prevent any disruption to billing or cash flow during the transition period

Continued economic pressures within the State of Connecticut are not expected to improve and may still worsen causing some instability in the predictability of State support across UConn Health. Leadership remains diligent on continued cost reduction work while protecting quality. Additional cuts in State support, beyond those in the original passed budget, are likely depending on how the State plans to balance its budget and address its current economic crisis.

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 changes to employee healthcare benefits, retirement plans, and future wage adjustments, resulting in cost-savings for fiscal year 2018, that are expected to offset ongoing increases to fringe benefit costs. The agreement also provides for certain employment protection for bargaining unit employees through June 30, 2021. The full impact of this agreement is unknown at this time.

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 HEALTH'S FINANCIAL MANAGEMENT

This financial report provides the reader with a general overview of UConn Health'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.

FINANCIAL STATEMENTS

UCONN HEALTH
STATEMENT OF NET POSITION
As of June 30, 2017

	2017
	(\$ in thousands)
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 104,516
Patient receivables, net	51,681
Contract and other receivables	30,254
Construction escrow account	2,479
Due from Affiliates (Note 14)	11,480
Due from State of Connecticut	10,495
Due from Department of Correction	10,909
Inventories	11,780
Prepaid expenses	6,645
Total current assets	240,239
Noncurrent Assets	
Restricted cash and cash equivalents	1,199
Other assets	2,981
Due from State of Connecticut	23,101
Capital assets, net	1,030,426
Total noncurrent assets	1,057,707
Total assets	\$ 1,297,946
Deferred Outflows of Resources (Note 11)	\$ 464,517
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 48,105
Due to State of Connecticut	7,628
Accrued salaries	27,592
Compensated absences - current portion (Note 10)	20,797
Due to third party payors	23,223
Unearned revenues	2,053
Malpractice reserve (Note 10)	5,870
Long-term debt - current portion (Note 10)	6,576
Total current liabilities	141,844
Noncurrent Liabilities	
Malpractice reserve (Note 10)	18,987
Compensated absences - net of current portion (Note 10)	31,196
Pension Liability (Note 11)	1,233,399
Long-term debt - net of current portion (Note 10)	200,523
Total noncurrent liabilities	1,484,105
Total liabilities	\$ 1,625,949
Deferred Inflows of Resources	\$ 10,182
NET POSITION	
Net investment in capital assets	\$ 823,325
Restricted for	
Nonexpendable	
Scholarships	61
Expendable	
Research	(8)
Loans	31
Capital projects	37,061
Unrestricted	(734,138)
Total net position	\$ 126,332

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

UCONN HEALTH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

	2017
	(\$ in thousands)
OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of \$6,250)	\$ 17,499
Patient services (net of charity care of \$310)	539,777
Federal grants and contracts	58,148
Nonfederal grants and contracts	29,009
Contract and other operating revenues	114,284
Total operating revenues	758,717
OPERATING EXPENSES	
Educational and General	
Instruction	169,130
Research	59,400
Patient services	713,342
Academic support	19,186
Institutional support	82,233
Operations and maintenance of plant	37,295
Depreciation and amortization	52,046
Student aid	194
Total operating expenses	1,132,826
Operating loss	(374,109)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	278,211
Gifts	4,079
Investment income (net of investment expense of \$56)	104
Interest on capital asset - related debt	(10,214)
Net nonoperating revenues	272,180
Loss before other changes in net position	(101,929)
OTHER CHANGES IN NET POSITION	
Capital appropriations	43,479
Loss on Disposal	(989)
Net Other Changes in Net Position	42,490
Decrease in net position	(59,439)
NET POSITION	
Net position-beginning of year	185,771
Net position-end of year	\$ 126,332

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

UCONN HEALTH
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	2017
	(\$ in thousands)
Cash flows from operating activities:	
Cash received from patients and third-party payors	\$ 535,451
Cash received from tuition and fees	17,499
Cash received from grants, contracts and other revenue	205,583
Cash paid to employees for personal services and fringe benefits	(564,258)
Cash paid for other than personal services	(298,231)
Net cash used in operating activities	(103,956)
Cash flows from investing activities:	
Interest received	104
Net cash provided by investing activities	104
Cash flows from noncapital financing activities:	
State appropriations	136,007
Gifts	4,079
Net cash provided by noncapital financing activities	140,086
Cash flows from capital and related financing activities:	
Additions to property and equipment	(138,064)
Capital appropriations	116,050
Interest paid	(10,227)
Net proceeds/(repayment) from long-term debt	1,741
Net cash used in capital and related financing activities	(30,500)
Net increase in cash and cash equivalents	5,734
Cash and cash equivalents at beginning of year	99,981
Cash and cash equivalents at end of year	\$ 105,715

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

UCONN HEALTH
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended June 30, 2017

	2017
	(\$ in thousands)
Operating loss	\$ (374,109)
Adjustments to reconcile operating loss to net cash	
Used in operating activities:	
Depreciation and amortization	52,046
Personal services and fringe benefits In Kind from State	142,712
Changes in assets and liabilities:	
Patients receivables, net	(1,091)
Contract and other receivables	3,287
Due from DOC	(2,503)
Inventories	(49)
Third party payors	(732)
Prepaid expenses	1,858
Other assets	1,490
Accounts payable and accrued liabilities	6,292
Due to State of Connecticut	1,112
Accrued salaries	349
Pension liabilities and related deferred outflows/inflows	72,305
Compensated absences	(1,044)
Deferred revenue	856
Malpractice reserve	(6,735)
Net cash used in operating activities	\$ (103,956)

Schedule of Non-Cash Financing Transactions

Mortgage proceeds held by Trustee in construction escrow account	\$ (7,834)
Accruals of expenses related to construction in progress	\$ 164
Equipment acquired by entering into capital lease agreements	\$ 2,493

NOTES TO FINANCIAL STATEMENTS

UCONN HEALTH
Notes to Financial Statements
For the Years Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut Health Center (“UConn Health”) is a part of a comprehensive institution of higher education, the University of Connecticut (the “University”). Although governed by a single Board of Trustees, UConn Health and the University maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and State Appropriations. UConn Health also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. These financial statements represent transactions and balances of UConn Health for the year ended June 30, 2017, which includes the School of Medicine, School of Dental Medicine, UConn Medical Group (UMG), University of Connecticut Health Center Finance Corporation, Correctional Managed Healthcare (CMHC), Dental Clinics (the “Primary Institution”) and John Dempsey Hospital (the “Hospital”). UConn Health offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. There is also an affiliated entity that supports the mission of UConn Health: The University of Connecticut Foundation Inc. (the “Foundation”). The Foundation raises funds to promote, encourage, and assist education and research at the University, including UConn Health.

Basis of Presentation

UConn Health’s financial statements are prepared using the economic resources measurement focus and in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of accounting principles generally accepted in the United States of America (GAAP). During the year ended June 30,

2016, UConn Health adopted this Statement and it did not have material impact on UConn Health’s financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. During the year ended June 30, 2016, UConn Health adopted this standard and it did not have a material impact on UConn Health’s financial statements based on the composition of UConn Health’s assets and liabilities.

UConn Health adopted GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 67 pertains to financial reporting by state and local government pension plans, effective for plan years beginning after June 15, 2013. GASB 68 addresses new accounting and financial reporting requirements for governmental employers that provide their employees with pension benefits administered through a qualified trust and was effective for UConn Health beginning July 1, 2014. This statement establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

Under GASB 68, cost-sharing employers not in a special funding situation are required to recognize a liability for their proportionate share of the net pension liability (of all employers for benefits provided through the pension plan) - the collective net pension liability. Consequently, UConn Health must report its proportionate share of the collective pension amounts related to the State Employees’ Retirement System and the Teachers’ Retirement System in its stand-alone financial statements. This statement also requires more extensive note

disclosure and required supplementary information (RSI) related to pensions.

In addition, UConn Health adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective simultaneously with the provisions of GASB 68. This Statement amends GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

Recently Adopted Accounting Pronouncements

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements with periods beginning after June 15, 2016 and adoption of this standard did not have a material impact on UConn Health's financial statements.

In June 2015, GASB issued 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement became effective for financial statements with periods beginning after June 15, 2016 and the adoption of this standard did not have a material impact on UConn Health's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No.68, and No.73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related

measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. The adoption of this standard did not have a material impact UConn Health's financial statements.

Upcoming Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which will require additional disclosures and the recording of UConn Health's proportionate share of the net liabilities related to its participation in the postemployment benefit plans on the statement of net position and requires supplementary information about the postemployment liabilities. This Statement is effective for fiscal years beginning after June 15, 2017. UConn Health is evaluating the impact this standard will have on it financial statements.

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 inflows of resources or 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. UConn Health is currently evaluating the impact this standard will have on its financial statements.

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, deferred inflows and outflows of resources and disclosure of contingent assets and liabilities 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.

Proprietary Fund Accounting

UConn Health utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. All revenues and expenses are subject to accrual.

Basis of Presentation

All significant intra-agency transactions have been eliminated in the presentation of the Consolidated Financial Statements. Additional information about eliminations may be found in the supplemental schedules.

Operating and Non-operating revenues:

UConn Health breaks out revenues between operating and non-operating based on the nature of the transaction as being either an exchange or non-exchange transaction. Exchange transactions principally include services provided by UConn Health to the community. Non-exchange transactions include State Appropriations, Gifts, Loss on disposal of property and equipment, and Investment Returns.

Cash and Cash Equivalents:

UConn Health considers all funds that have not been board or otherwise designated and which are held on its behalf by the State of Connecticut to be cash.

Construction Escrow Account:

Funds related to the financing of the Outpatient Pavilion are placed into the Construction Escrow account upon advancement from the lender. UConn Health does not have immediate access to these funds and must submit receipts and other prescribed documentation in order to apply for reimbursement of construction expenses from the fund.

Accounts Receivable and Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Investments and Investment Income

The State of Connecticut has established various funds to account for the operations of UConn Health. These funds include the University Health Center Operating Fund (Fund 12018), the University Health Center Research Foundation Fund (Fund 12023), the University Health Center Hospital Fund (Fund 21002) and the UConn Health Malpractice Fund (Fund 35015). Grants and contracts for research and related retained overhead recoveries are accounted for in the Research Foundation Fund. The Malpractice Fund accounts for assets set aside in conjunction with actuarial funding recommendations. The Operating Fund acts as a "General Fund" for UConn Health, accounting for all operations not accounted for elsewhere.

Unrestricted Research Foundation Fund and Malpractice Fund assets in excess of immediate cash needs are invested in the State of Connecticut Short-Term Investment Fund (STIF). Most restricted Research Foundation Fund assets are not invested, though there are certain exceptions including gift accounts and funds invested at the request of sponsoring organizations. Local student activity funds controlled by UConn Health are also invested in STIF; these funds are minimal in amount.

The STIF, which was established and is operated under Sections 3-27a through 3-27i of the General Statutes, provides State agencies, funds, political subdivisions and others with a mechanism for investing at a daily-earned rate with interest from day of deposit to day of withdrawal. STIF participants have daily access to their account balances. Underlying investments of the STIF are mainly in money market instruments.

Though Operating Fund participation in STIF is not significant, UConn Health earns interest on Operating Fund cash balances through the State Treasurer's interest credit program. Under this program, the Treasurer pays UConn Health STIF equivalent interest on the average daily cash balance held in the Operating Fund each quarter. Additionally, interest is paid on monies transferred from UConn Health's civil list funds into the direct disbursement account used to process checks issued directly to vendors by UConn Health. Though the balance in this account may include assets of the Operating, Research Fund and Hospital Funds, all interest earned is credited to the Operating Fund. The Hospital Fund does not participate in STIF or,

other than described above, the Treasurer's interest credit program.

Investment Income also includes amounts received from endowments.

Inventories

Consumable supplies are expensed when received with the exception of certain central inventories. Cost of the inventory is determined on a moving average basis for the Central Warehouse, and on a first-in, first-out basis for the others. Pharmacy inventory is valued at market which approximates cost due to high turnover rates for institutional pharmaceuticals.

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 have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years.

Medical Malpractice

Health care providers and support staff of the UConn Health 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 have been charged against UConn Health's malpractice self-insurance fund. Effective July 1, 1999, UConn Health developed a methodology by which it could allocate malpractice costs between the Hospital, UMG, and Dental practices. For the years ended June 30, 2017, these costs are included in the statement of revenues, expenses and changes in net position.

Compensated Absences

UConn Health'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 the Hospital 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 based on historical information.

Pension Liabilities

In accordance with GASB 68, UConn Health 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. Information about the fiduciary net position and additions to/deductions from each pension plan's fiduciary net position have 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.

Deferred Outflows of Resources and Deferred Inflows of Resources

UConn Health reports its proportionate share of collective deferred outflows of resources or collective deferred inflows of resources related to its defined-benefit plans. Differences between expected and actual experience in the measurement of the total pension liability, 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 benefits. The

net differences between projected and actual earnings on pension plan investments are reported as deferred outflows or deferred inflows and are recognized over the average remaining service lives of the plan participants. Contributions to the pension plan from UConn Health subsequent to the measurement date of the net pension liability and before the end of the reporting period are reported as a deferred outflow of resources related to pensions.

	<u>2017</u>
Cash maintained by State of Connecticut Treasurer	\$ 63,970,856
Invested in State of Connecticut Short-Term Investment Fund	40,856,616
Deposits with Financial Institutions and Other	876,478
Currency (Change Funds)	<u>11,030</u>
Total cash and cash equivalents	105,714,980
Less: current balance	<u>104,516,127</u>
Total noncurrent balance	<u>\$ 1,198,853</u>

Regulatory Matters

The Hospital is required to file semi-annual and annual operating information with the State of Connecticut Office of Health Care Access (“OHCA”), and is required to file annual cost reports with Medicare and Medicaid.

Reclassification

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Approximately \$17 million was reclassified from Institutional Support to Operations and Maintenance of Plant. This change did not have an impact on the bottom line.

Collateralized deposits are protected by Connecticut statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to at least a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio – a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut were insured by the Federal Deposit Insurance Corporation or collateralized. As a State agency, UConn Health benefits from this protection, though the extent to which the deposits of an individual State agency such as UConn Health are protected cannot be readily determined.

2. CASH DEPOSITS AND INVESTMENTS

Statement No. 40 of the GASB requires governmental entities to disclose credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks, especially as it relates to uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in UConn Health's name.

UConn Health's cash and cash equivalents, current and noncurrent, balance was \$105,714,980, as of June 30, 2017, included the following:

Short-Term Investment Fund (STIF)

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. For financial reporting purposes, STIF is considered to be "cash equivalents" in the statements of net position.

UConn Health's cash management investment policy authorizes UConn Health to invest in the State Treasurer's Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements and savings accounts. The \$40,856,616 invested in the State of Connecticut Investment Pool is invested

by the State Treasurer in its Short-term Investment Fund and had a Standard and Poor's rating of AAAM during fiscal year 2017.

Certain funds are held by outside fiscal agents and are not under the direct control of UConn Health. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds was \$2,543,779 as of June 30, 2017. Investment income earned on these assets is transferred to UConn Health in accordance with the applicable trust agreement. Income received from those sources was \$18,312 the year ended June 30, 2017.

3. HYPOTHECATION

Individual components of UConn Health are allowed to borrow from the State on the basis of their net patient receivables and contract and other receivables to fund operations. These units include John Dempsey Hospital and the UConn Medical Group. John Dempsey Hospital is allowed to borrow from the State at up to 90% of its receivables. UConn Medical Group is allowed to borrow at up to 70% of its receivables. As of June 30, 2017, the Hospital and UMG had the following draws and availability under the State statute:

	2017	
	John Dempsey Hospital	UConn Medical Group
Amount Drawn under Hypothecation	\$ -	3,564,679
Remaining amounts available under Hypothecation	\$ 46,633,974	4,135,985

4. NET PATIENT SERVICE REVENUE

UConn Health provides health care services primarily to residents of the region. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. UConn Health 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 UConn Health.

UConn Health has agreements with third-party payers that provide for payments at amounts different from its established rates. These third party payers include Medicare, Medicaid and certain commercial insurance carriers and Health Maintenance Organizations. Additionally, under the Correctional Managed Health Care Program, UConn Health provides medical, dental and psychiatric care to the inmates incarcerated at the State's correctional facilities. This program is funded from the State's General Fund through the Department of Correction.

Patient service revenue for UConn Health is as follows:

	2017	
John Dempsey Hospital		
Gross patient services revenue	\$ 945,652,352	
Less allowances	574,489,709	
Less bad debts	3,448,024	
Net patient service revenue		367,714,619
UConn Medical Group		
Gross patient services revenue	227,786,734	
Less allowances	136,559,524	
Less bad debts	2,141,680	
Net patient service revenue		89,085,530
Correctional Managed Health Care		78,871,336
All other		10,160,421
Total net patient service revenue per business unit		545,831,906
Eliminations		(6,055,032)
Total net patient service revenue	\$	<u>539,776,874</u>

(Amounts above include internal transactions eliminated on the face of the statements. Additional information is provided in the Supplemental Information at the end of these statements)

5. CHARITY CARE

The Hospital 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 2017, the Hospital provided charity care services of \$310,124. The cost basis of these services was \$138,801. All related expenses are included in operating expenses.

6. ENDOWMENTS

UConn Health designated the Foundation as manager of UConn Health's endowment funds. The Foundation makes spending allocation distributions to UConn Health for each participating endowment. The distribution is spent by UConn Health in accordance with the respective purposes of the endowments and with the policies and procedures of UConn Health. Additional information is presented in note 14.

7. RESIDENCY TRAINING PROGRAM

UConn Health's School of Medicine Residency Training Program provides area hospitals with the services of interns and residents. Participating hospitals remit payments to UConn Health, in accordance with an established rate schedule, for services provided. UConn Health, in turn, funds the Capital Area Health Consortium, Inc., which coordinates the payment of payroll and the provision of related fringe benefits to the interns and residents, under a contractual arrangement. Amounts remitted or owed by participating hospitals for payments made to interns and residents, and amounts paid or

due under contract to the Capital Area Health Consortium, Inc., are reflected in the accompanying financial statements as current unrestricted revenues and expenditures, respectively.

UConn Health's School of Dental Medicine also operates its Residency Training Program through the Consortium. Dental Residents work in local dental clinics honing their skills while providing services to traditionally underserved populations.

8. CONTINGENCIES

UConn Health is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material effect on UConn Health's financial statements.

9. CAPITAL ASSETS

Capital assets at June 30, 2017, consisted of the following:

	<u>2017</u>
Land	\$ 13,537,051
Construction in Progress	329,428,817
Buildings	921,799,316
Equipment	287,929,633
Capital leases	<u>14,084,244</u>
	1,566,779,061
Less accumulated depreciation	<u>536,353,470</u>
Capital assets, net	<u>\$ 1,030,425,591</u>

UConn Health's fine art collection is capitalized on the statement of net position. This collection is included in equipment in the Primary Institution and totaled \$1,101,902 at June 30, 2017. Plant and equipment activity and related information on accumulated depreciation for UConn Health for the year ended June 30, 2017 was as follows:

	<u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>2017</u>
<u>Property and equipment:</u>				
Land	\$ 13,537,051	-	-	\$ 13,537,051
Construction in Progress	256,476,514	114,934,438	(41,982,135)	329,428,817
Buildings and Building Improvements	887,659,395	36,217,322	(2,077,401)	921,799,316
Equipment	270,365,320	26,618,197	(9,053,884)	287,929,633
Capital leases	11,591,634	2,492,610	-	14,084,244
Total property and equipment	<u>1,439,629,914</u>	<u>180,262,567</u>	<u>(53,113,420)</u>	<u>1,566,779,061</u>
<u>Less accumulated depreciation:</u>				
Buildings and Building Improvements	287,079,190	28,405,147	(1,333,880)	314,150,457
Equipment	195,782,123	23,401,991	(8,808,480)	210,375,634
Capital Leases	11,588,256	239,123	-	11,827,379
Total accumulated depreciation	<u>494,449,569</u>	<u>52,046,261</u>	<u>(10,142,360)</u>	<u>536,353,470</u>
<u>Net property and equipment:</u>				
Land	13,537,051	-	-	13,537,051
Construction in Progress	256,476,514	114,934,438	(41,982,135)	329,428,817
Buildings and Building Improvements	600,580,205	7,812,175	(743,521)	607,648,859
Equipment	74,583,197	3,216,206	(245,404)	77,553,999
Capital leases	3,378	2,253,487	-	2,256,865
Total capital assets, net	<u>\$ 945,180,345</u>	<u>\$ 128,216,306</u>	<u>\$ (42,971,060)</u>	<u>\$ 1,030,425,591</u>

Construction in progress at June 30, 2017, represents accumulated costs for various UConn Health construction projects. UConn Health has entered into various contractual arrangements related to these projects. Upon completion, the cost of the

project is transferred to the appropriate investment in property and equipment category and depreciation will commence.

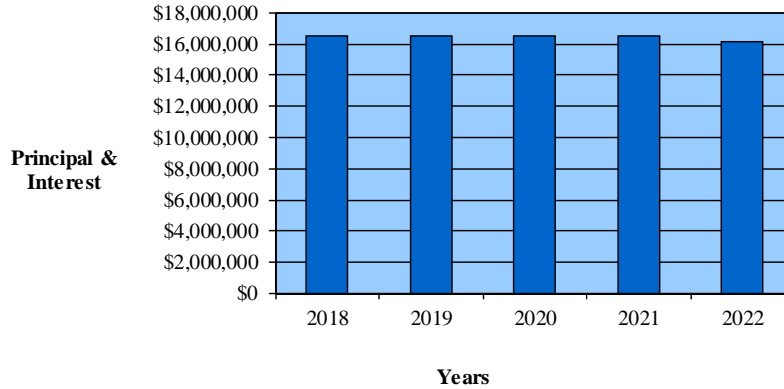
10. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2017 was as follows:

	June 30, 2016		June 30, 2017		Amounts due
	Balance	Additions	Reductions	Balance	within 1 year
Long-Term debt:					
Capital Leases John Dempsey Hospital	-	2,492,263	(305,664)	2,186,599	485,482
Mortgage Agreements Primary Institution	210,700,241	-	(5,786,545)	204,913,696	6,090,659
Total Long-Term Debt	210,700,241	2,492,263	(6,092,209)	207,100,295	6,576,141
Malpractice reserve	31,592,000	-	(6,735,000)	24,857,000	5,870,000
Compensated absences	53,037,827	35,293,381	(36,337,464)	51,993,744	20,797,498
Total Long - Term Liabilities	\$ 295,330,068	37,785,644	(49,164,673)	283,951,039	\$ 33,243,639

Estimated cash basis interest and principal requirements for the long-term debt (including the full amounts payable for the Outpatient Pavilion) for the next five years and thereafter are as follows:

Long-Term Debt Requirement



Year	Long-Term Debt
2018	16,508,114
2019	16,508,114
2020	16,508,114
2021	16,508,114
2022	16,173,569
Thereafter	252,850,239
Totals	\$ 335,056,264

In 2017, John Dempsey Hospital entered into two five year lease agreements for medical equipment. At the completion of the lease terms, John Dempsey

Hospital has an option to purchase the medical equipment at fair market value. The cost and accumulated depreciation of the medical equipment

was \$2,492,610 and \$235,745, respectively, as of June 30, 2017.

All assets subject to capital lease agreements are included in property and equipment on the accompanying Statement of Net Position; depreciation on these assets is included in depreciation in the accompanying Statement of Revenues, Expenses, and Changes in Net Position (see note 9). Loans related to these capital lease agreements are included in long-term debt on the accompanying Statement of Net Position.

UConn Health is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under UConn Health's incident reporting system and an estimate of incurred but not reported claims are accrued based on actuarially determined estimates that incorporate UConn Health's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. The scope of UConn Health's assessment for establishing budgets for malpractice costs encompasses physicians, dentists, and all other UConn Health health care providers, and support staff.

UConn Health is involved in litigation claiming a substantial amount of damages arising in the ordinary course of business. Specifically, claims alleging malpractice have been asserted against UConn Health and are currently in various stages of litigation. Costs associated with these known claims, including settlements, as well as any new claims arising during the course of business will be paid from the malpractice fund.

Pursuant to Public Act No. 09-3, to the extent that claims for cases exceed current year premiums budgeted by UConn Health, UConn Health may petition the State to make up any difference. However, operational subsidies from the State and/or UConn Health may be affected by the performance of UConn Health's malpractice program. At June 30, 2017, UConn Health Malpractice Fund had actuarial reserves of approximately \$24.9 million and assets of approximately \$7.1 million.

11. RETIREMENT PLAN AND OTHER POST EMPLOYMENT BENEFITS

State Retirement Systems

The University sponsors two defined benefit plans administered through the State: the State Employees' Retirement System (SERS) and the Connecticut Teachers' Retirement System (TRS). SERS and TRS do not issue stand-alone financial reports but are reported as fiduciary funds within the State's Comprehensive Annual Financial Report (CAFR). Financial reports are available on the website of the Office of the State Comptroller at www.osc.ct.gov.

State Employees' Retirement System (SERS)

Pension plan - SERS is a single-employer defined-benefit plan that covers substantially all of the State's full-time employees who are not eligible for another State sponsored retirement plan. SERS is administered by the State Comptroller's Retirement Division under the direction of the State Employees Retirement Commission. As of June 30, 2017, SERS consisted of five plans: Tier I, Tier II, Tier IIA, Tier III, and the Hybrid Plan. In accordance with GASB 68, UConn Health must report for its participation in SERS as if it were a cost-sharing employer plan.

Benefits provided - SERS was established by the Connecticut General Assembly for the purpose of providing retirement, disability, and death benefits along with annual cost-of-living adjustments (COLAs) to plan members and their beneficiaries. Generally, the monthly pension benefit is calculated in accordance with a basic formula, which takes into consideration average salary, credited service, and age at retirement. Further details on plan benefits, COLAs, and other plan provisions are described in Sections 5-152 to 5-192 of the State General Statutes.

Contributions - The contribution requirements are established and may be amended by the State legislature subject to the contractual rights established by collective bargaining. Tier I Plan B regular and Hazardous Duty members are required to contribute two percent and four percent of their annual salary, respectively, up to the Social Security Taxable Wage Base plus five percent above that level; Tier I Plan C members are required to contribute five percent of their annual salary; Tier II Plan Hazardous Duty members are required to contribute four percent of their annual salary; Tier

IIA and Tier III Plans regular and Hazardous Duty members are required to contribute two percent and five percent of their annual salary, respectively. Individuals hired on or after July 1, 2011, who are otherwise eligible for the Alternate Retirement Plan are also eligible to become members of the Hybrid Plan. The Hybrid Plan has defined benefits identical to Tiers II, IIA, and III for individuals hired on or after July 1, 2011, but requires employee contributions three percent higher than the contribution required from the applicable Tier II, IIA, or III Plan. The State is required to contribute at an actuarially determined rate.

UConn Health makes contributions on behalf of the employees, through a fringe benefit charge assessed by the State. These amounts are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. UConn Health's contributions for regular and hazardous duty members were \$84.9 million for fiscal year 2017.

Subsequent to year-end, provisions under collective bargaining agreements were amended for existing SERS plans by revising certain factors including employee contribution rates and COLAs. A Tier IV plan was also placed into effect for employees hired on or after the effective date. These changes were effective July 1, 2017, and their overall impact cannot be reasonably estimated as of the date of this report.

Proportionate share of collective Net Pension Liability (NPL) - The total pension liability (TPL) used to calculate the collective NPL was determined based on the annual actuarial funding valuation report as of June 30, 2016. UConn Health's proportion of the collective NPL was based on UConn Health's share of contributions relative to total contributions made to the respective pension plans. Based on this calculation, UConn Health's proportion of SERS was 5.36 percent at the measurement date of June 30, 2016.

At June 30, 2017, UConn Health reported liabilities of \$1.2 billion for its proportionate share of the SERS collective NPL.

Actuarial assumptions - For SERS, the RP-2014 White Collar Mortality Table projected to 2020 by

scale BB at 100 percent for males and 95 percent for females is used for the period after service retirement and for dependent beneficiaries. The RP-2014 Disabled Retiree Mortality Table at 65 percent for males and 85 percent for females is used for the period after disability.

The TPL was based on actuarial study for the period July 1, 2011–June 30, 2015 for SERS using the following key assumptions.

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

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the June 30, 2016 measurement date are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equities	21.0%	5.8%
Developed Non-U.S. Equities	18.0%	6.6%
Emerging Market (Non-U.S.)	9.0%	8.3%
Real Estate	7.0%	5.1%
Private Equity	11.0%	7.6%
Alternative Investments	8.0%	4.1%
Fixed Income (Core)	8.0%	1.3%
High Yield Bonds	5.0%	3.9%
Emerging Market Bond	4.0%	3.7%
TIPS	5.0%	1.0%
Cash	4.0%	0.4%
Total	100.0%	

Discount rate - The discount rate used to measure the TPL at June 30, 2016 was the long-term rate of return of 6.9%. The projection of cash flows used to determine the discount rate assumed that plan member 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 2136.

Based on those assumptions, SERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL and a municipal bond rate was not used in determining the discount rate.

Sensitivity analysis - The following table presents UConn Health's proportionate share of the collective NPL calculated using the discount rate of 6.9%, as well as what UConn Health's proportionate share of the collective NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (5.9%) or 1-percentage-point higher (7.9%) than the current rate (amounts in thousands):

1% Decrease (5.9%)	Current Discount Rate (6.9%)	1% Increase (7.9%)
\$1,460,534	\$1,230,753	\$1,039,522

Pension plan fiduciary net position. Detailed information about the fiduciary net position of the SERS pension plan is available in the State's CAFR for the fiscal year ended June 30, 2016.

Connecticut Teachers' Retirement System (TRS)

Pension plan - TRS is a cost-sharing multiple-employer defined-benefit plan covering any teacher, principal, Superintendent, or supervisor engaged in service of public schools in the State. Employees previously qualified for TRS continue coverage during employment with UConn Health, and do not participate in any other offered retirement plans. TRS is governed by Chapter 167a of the State General Statutes, as amended through the current session of the State Legislature, and is administered by the Teachers' Retirement Board.

Benefits provided - TRS provides retirement, disability, and death benefits, and annual COLAs to plan members and their beneficiaries. Generally, monthly plan benefits are based on a formula in combination with the member's age, service, and the average of the highest three years of paid salaries. Further information on TRS plan benefits, COLAs, and other plan provisions are described in Sections 10-183b to 10-183ss of the State General Statutes.

Contributions - The contribution requirements are established and may be amended by the State legislature. Plan members are required to contribute 6.0% of their annual salary. According to Section 10-183z of the State General Statutes a special funding situation requires the State to contribute 100.0% of employer's contributions on behalf of its municipalities at an actuarially determined rate.

However, a special funding situation does not apply to UConn Health because it is an agency of the State and there is not a separate non-employer contributing entity. Therefore, like SERS, UConn Health makes contributions on behalf of these employees, through a fringe benefit charge assessed by the State. UConn Health's TRS contributions for the year ended June 30, 2017, was \$238,865.

Proportionate share of collective Net Pension Liability (NPL) - The total pension liability (TPL) used to calculate the collective NPL was determined based on the annual actuarial funding valuation report as of June 30, 2016. UConn Health's proportion of the collective NPL was based on UConn Health's share of contributions relative to total contributions made to the respective pension plans. Based on this calculation, UConn Health's proportion of the TRS was .019 percent at the measurement date of June 30, 2016.

Actuarial assumptions - TRS mortality rates were based on the RPH-2014 White Collar Table with employee and annuitant rates blend from ages 50 to 80, projected to the year 2020 using the BB improvement scale, and further adjusted to grade in increases (five percent for females and either percent for males) to rates over age 80 for the period after service retirement and for dependent beneficiaries as well as for active members. The RPH-2014 Disabled Mortality Table projected to 2017 with Scale BB is used for the period after disability retirement.

The TPL was based on an actuarial study for the period July 1, 2010 – June 30, 2015 for TRS, using the following key actuarial assumptions:

Inflation	2.75%
Salary increases, including inflation	3.25% – 6.50%
Investment rate of return, net of pension plan investment expense, including inflation	8.00 %

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 weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the June 30, 2016 measurement date are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equities	21.0%	5.8%
Developed Non-U.S. Equities	18.0%	6.6%
Emerging Markets (Non-U.S.)	9.0%	8.3%
Real Estate	7.0%	5.1%
Private Equity	11.0%	7.6%
Alternate Investment	8.0%	4.1%
Fixed Income (Core)	7.0%	1.3%
High Yield Bonds	5.0%	3.9%
Emerging Market Bond	5.0%	3.7%
Inflation Linked Bonds	3.0%	1.0%
Cash	6.0%	0.4%
Total	100.0%	

Discount rate - The discount rate used to measure the TPL was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be

made at the actuarially determined rates in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the

long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity analysis - The following presents UConn Health's proportionate share of the collective NPL calculated using the discount rate of 8.0%, as well as what the UConn Health's proportionate share of the collective NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate (amounts in thousands):

1% Decrease	Current Discount Rate	1% Increase
(7.0%)	(8.0%)	(9.0%)
\$ 3,259	\$ 2,646	\$ 2,123

Pension plan fiduciary net position - Detailed information about the fiduciary net position of the TRS pension plan is available in the State's CAFR for the fiscal year ended June 30, 2016.

Deferred outflows and deferred inflows of resources related to pensions - At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts in thousands):

	SERS	TRS	Total
<u>Deferred Outflows of Resources</u>			
Changes in assumptions	\$ 219,435	\$ 351	\$ 219,786
Changes in proportion and differences between University contributions and proportionate share of contributions	85,342	1,281	86,623
Net differences between projected and actual earnings on pension plan investments	38,595	224	38,819
University contributions subsequent to the measurement date	84,860	239	85,099
Difference between expected and actual experience	34,190	-	34,190
Total Deferred Outflows	\$ 462,422	\$ 2,095	\$ 464,517
<u>Deferred Inflows of Resources</u>			
Changes in proportion and differences between University contributions and proportionate share of contributions	10,122	-	10,122
Difference between expected and actual experience	-	60	60
Total Deferred Inflows	10,122	60	10,182

The \$85.1 million in deferred outflows relating to contributions made subsequent to the measurement date will be recognized as a reduction of the collective NPL in the reporting year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts in thousands):

Fiscal Year	SERS	TRS	Total
2018	\$ 22,846	\$ 253	\$ 23,099
2019	22,846	253	23,099
2020	19,568	253	19,821
2021	8,394	236	8,630
2022	1,566	163	1,729
Thereafter	-	124	124
Total	\$ 75,220	\$ 1,282	\$ 76,502

Alternate Retirement Plan

Defined Contribution Plan - UConn Health also sponsors the Alternate Retirement Plan (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 plan including the authority to make and amend rules and regulations relating to the administration of the plan.

All unclassified employees not already in a pension plan of a constituent unit of the State system of higher education or the central office staff of the Department of Higher Education are eligible to participate in ARP. Participants must contribute five percent of eligible compensation each pay period and their employer must contribute an amount equal to eight percent of the participant's eligible compensation. UConn Health contributes its employer share through a fringe benefit charge assessed by the State. Participant and employer contributions are both 100 percent vested immediately. For fiscal year 2017, UConn Health's employer contributions to ARP were \$26.0 million. The commission has the authority to supervise and control the operation of the plan including the authority to make and amend rules and regulations relating to the administration of the plan.

Upon separation from service, retirement, death or divorce (including alternate payee under a Qualified Domestic Relations Order), if you are age 55 or over and have 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.

Subsequent to year-end, provisions under collective bargaining agreements were amended by revising certain factors including employee contribution rates related to ARP. These changes were effective July 1, 2017, and their overall impact cannot be reasonably estimated as of the date of this report.

Post-Employment Benefits other than Pension

In addition to the pension benefits, the State provides post-retirement health care and life insurance

benefits to UConn Health 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. Currently, the State is responsible and finances the cost of post-retirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund; therefore, no liability is recorded in UConn Health's financial statements as of June 30, 2017.

Effective for fiscal year 2018, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, will require UConn Health to report its proportionate share of the net liability related to its participation in the postemployment benefit plans on the Statements of Net Position as well as more extensive note disclosures and required supplementary information about the postemployment liabilities. UConn Health is still evaluating the overall impact this standard will have on its overall financial statements.

12. BOND FINANCED ALLOTMENTS

UConn Health recognizes an asset when an allotment is processed for State general obligation bonds or when bonds are funded from UConn Health resources or issued under the UCONN 2000 program are sold.

In fiscal year 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (Act), also known as Phase III. This Act amended Public Act No. 95-230 and extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The 21st Century UConn program was amended in fiscal year 2008, extending it an additional year to June 30, 2016, without any change in the total amount. In fiscal year 2010, the Act was amended again including a \$25 million reallocation from existing UCONN 2000 UConn Health allocations, and a \$207 million increase in UCONN 2000 debt service

commitment authorizations for the UConn Health Network. This also extended the UCONN 2000 program two additional years to fiscal year 2018. In fiscal year 2011, the General Assembly enacted and the Governor signed Public Act No. 11-75, An Act Concerning the University of Connecticut Health Center, which increased the authorized project costs for UConn Health under Phase III. The Act, as amended, authorized additional projects for UConn Health at an estimated cost of \$775.3 million. The Act also requires UConn Health to contribute not less than \$69 million through operations, eligible gifts, or other sources towards new UConn Health construction.

In Fiscal year 2017, the Governor proposed a budget deferring \$334.1 million in UCONN 2000 authorizations and extending the program three years. The total estimated cost for Phases I, II, and III under UCONN 2000 is \$4,619.3 billion. These deferrals are not expected to have a material impact on UConn Health's ongoing projects.

In fiscal 2017, the University recorded total revenue of \$345.2 million as State debt service commitment for principal for the 2017 Series A bonds and Refunding Series A bonds which included \$27.5 million to finance projects for UConn Health. UConn Health reports revenues from these bonds as Capital Appropriations. As noted above, Phase III includes a commitment to fund projects totaling \$775.3 million for UConn Health. These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any of the other revenues for the payment of the bonds. The University therefore acts as custodian of the funds for UConn Health. A corresponding receivable, Due from Affiliates, is recorded for the unspent portion of the bonds, \$11.5 million, at June 30, 2017, in the Statement of Net Position.

In the June 2015 Special Session, the General Assembly of the State of Connecticut enacted and the

Governor signed into law Public Act 15-01 (June Spec. Sess.), *An Act Authorizing and Adjusting Bonds of the State for Capital Improvements, Transportation, and Other Purposes*. This Public Act empowered the State Bond Commission to authorize the issuance of bonds of the State for specific purposes enumerated in the Act. Section 2(d)(5) of the Act authorized \$25 million of the proceeds of the bond sales to be allocated in fiscal year 2016 for the purchase and implementation of an integrated electronic medical records system at The University of Connecticut Health Center ("UConn Health's EMR"), and Section 21(c)(4) of the Act authorized \$16 million of the proceeds of the bond sales to be allocated in fiscal year 2017 for UConn Health's EMR. The bill also introduced language effective July 1, 2015, that allows the University to revise, delete or add particular projects to finance implementation of UConn Health's EMR, thus giving the University the flexibility to reallocate existing UCONN 2000 authorizations to the project in future years. As of June 30, 2017, the University has not made such an election. On February 1, 2017, pursuant to Public Act 15-1 (June Spec. Sess.), the State Bond Commission allocated funds to support the fiscal year 2017 installment of \$16 million for UConn Health's EMR. UConn Health's unspent portion of State Bond Issuances, \$20,394,798, is included in Due from State of Connecticut on its Statement of Net Position.

13. COMMITMENTS

On June 30, 2017, UConn Health had individual outstanding commitments exceeding \$300,000 in amount, totaling \$8,269,315. A portion of this amount was included in the June 30, 2017 accounts payable. Commitments above do not include any commitments arising from the administration of UCONN 2000 funds by the University on UConn Health's behalf. Such obligations would be paid directly from proceeds of current and future bond issuances.

UConn Health agreed to pay \$56,318,904 during the 2017-2018 fiscal year to the Capitol Area Health Consortium to cover the payment of payroll, related fringe benefits, and certain program expenses for interns and residents participating in the School of Medicine and Dental Medicine Residency Training Programs. These costs are to be funded by participating hospitals, which will remit payments to UConn Health, in accordance with an established

rate schedule, for services provided. Dental Residency costs will be funded by the School of Dental Medicine.

UConn Health leases various building space under operating lease commitments, which expire at various dates through fiscal year 2027. Expenses related to these leases was \$5,605,567 for the year ended June 30, 2017. Future minimum rental payments at June 30, 2017 under non-cancelable operating leases are approximately as follows:

<u>Year</u>	<u>Payments</u>
2018	3,980,491
2019	4,006,750
2020	3,358,577
2021	2,759,405
2022	1,891,951
Thereafter	<u>8,845,115</u>
Total	\$ <u>24,842,289</u>

14. RELATED PARTY TRANSACTIONS

The University of Connecticut Foundation, Inc. (the "Foundation") is a tax-exempt organization whose objective is the betterment of the University, including UConn Health. The Foundation is a consolidated part of the University and therefore an affiliated party. UConn Health has an agreement through the University to reimburse the Foundation for certain administrative services and the Foundation agreed to reimburse UConn Health for certain services performed and for operating expenses of the Foundation. The following transactions occurred between UConn Health and the Foundation during the year ended June 30, 2017:

Amount paid to the Foundation \$ 13,545

Amount paid to University for Foundation services \$ 945,000

Amount received from the Foundation for personnel services and operating expenses \$ 4,163,104

Amount received from the Foundation from endowments and gifts \$ 1,845,822

In addition, UConn Health also directly engages in transactions with the University. Listed below are the material transactions with the University excluding payments for Foundation services. Not included in this list are certain cost share arrangements for shared services and transactions related to UCONN 2000 for which notation has been made in note 12.

Funds Paid to the University of Connecticut \$ 8,568,140

UConn Health is a component unit of the State of Connecticut. Through UConn Health, the State seeks to meet certain unmet needs in the community including the training and development of new doctors and dentists. The State supports UConn Health's mission primarily via two mechanisms: State Appropriations and the provision of In Kind benefits. State Appropriations represent amounts the State allows UConn Health to charge back directly to the State's General Fund. In Kind benefits take the form of forgone fringe benefit expense reimbursements related to salaries expensed on the General Fund. For the year ended June 30, 2017, the amounts of these benefits recognized were as follows:

Amount of General Fund Appropriations from State of Connecticut \$ 136,007,101

In Kind Fringe Benefits:

Recognized through CMHC 53,927,826
 Received elsewhere in Primary Institution 88,276,287

Total In Kind Fringe Benefits received from State of Connecticut: \$ 142,204,113

Total Appropriations and In Kind Fringe Benefits received from State of Connecticut \$ 278,211,214

15. OPERATING EXPENSES BY OBJECT

The table below details UConn Health's operating expenses by object for the years ended June 30, 2017.

Operating Expenses by object for the Years Ended June 30:

	<u>2017</u>
Salaries and wages	\$ 444,948,481
Fringe benefits	331,533,037
Supplies and other expenses	291,165,089
Utilities	13,133,034
Depreciation and amortization	<u>52,046,261</u>
Total	<u>\$ 1,132,825,902</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

UCONN HEALTH
Required Supplementary Information
For the Year Ended June 30, 2017

State Employees' Retirement System (SERS) and Teachers' Retirement System (TRS)

Schedule of UConn Health's Proportionate Share of Collective Net Pension Liability (NPL)

Based on a valuation date lagging one year behind the fiscal year

(\$ in thousands)

Fiscal Year Ended June 30	SERS			TRS		
	2017	2016	2015	2017	2016	2015
Proportion of Collective NPL	5.36%	5.29%	4.99%	0.019%	0.0009%	0.0009%
Proportionate share of the collective NPL	\$ 1,230,753	\$ 873,351	\$ 799,061	\$ 2,646	\$ 1,042	\$ 963
UConn Health's covered employee payroll	\$ 200,050	\$ 184,762	\$ 167,523	\$ 762	\$ 573	\$ 384
Proportionate share of the collective NPL as a percentage of covered-employee payroll	615.22%	472.69%	476.99%	347.24%	181.85%	250.78%
Plan fiduciary net position as a percentage of the total pension liability	31.69%	39.23%	39.54%	52.26%	59.50%	61.56%

Schedule of UConn Health Pension Contributions

Based on contributions for the Fiscal Year Ended June 30,

(\$ in thousands)

For the year ended June 30	SERS			TRS		
	2017	2016	2015	2017	2016	2015
Contractually Required employer contribution	\$ 84,860	\$ 80,493	\$ 72,496	\$ 239	\$ 181	\$ 93
Actual UConn Health Contribution	84,860	80,493	72,496	239	237	201
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ (56)	\$ (108)
UConn Health's covered employee payroll	\$ 205,188	\$ 200,050	\$ 184,762	\$ 834	\$ 762	\$ 573
Actual UConn Health contributions as a percentage of covered employee payroll	41.36%	40.24%	39.24%	28.66%	31.10%	35.08%

NOTES TO REQUIRED SCHEDULES

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

Changes in Assumptions

2017 – Amounts reported for both SERS and TRS reflect a rate adjustment to more closely reflect actual and anticipated experience. In addition, amounts reported for SERS reflect an adjustment to economic assumptions, actuarial cost method, and amortization methodology in accordance with a State memorandum effective December 8, 2016.

UCONN HEALTH
CONSOLIDATING STATEMENT OF NET POSITION
As of June 30, 2017

(\$ in thousands)	2017			
	Primary Institution	John Dempsey Hospital	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 67,619	\$ 36,897	\$ -	\$ 104,516
Patient receivables, net	10,736	40,945	-	51,681
Contract and other receivables	19,384	10,870	-	30,254
Construction escrow account	2,479	-	-	2,479
Due from Affiliates (Note 12)	11,480	-	-	11,480
Due from State of Connecticut	10,495	-	-	10,495
Due from Primary Institution	-	14,083	(14,083)	-
Due from Department of Correction	10,909	-	-	10,909
Inventories	2,734	9,046	-	11,780
Prepaid expenses	799	5,846	-	6,645
Total current assets	<u>136,635</u>	<u>117,687</u>	<u>(14,083)</u>	<u>240,239</u>
Noncurrent Assets				
Restricted cash and cash equivalents	1,199	-	-	1,199
Other assets	2,177	804	-	2,981
Due from State of Connecticut	23,101	-	-	23,101
Capital assets, net	<u>663,968</u>	<u>366,458</u>	<u>-</u>	<u>1,030,426</u>
Total noncurrent assets	<u>690,445</u>	<u>367,262</u>	<u>-</u>	<u>1,057,707</u>
Total assets	<u>\$ 827,080</u>	<u>\$ 484,949</u>	<u>\$ (14,083)</u>	<u>\$ 1,297,946</u>
Deferred Outflows of Resources	<u>\$ 334,728</u>	<u>\$ 129,789</u>	<u>\$ -</u>	<u>\$ 464,517</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 29,725	\$ 18,380	\$ -	\$ 48,105
Due to State of Connecticut	3,412	4,216	-	7,628
Accrued salaries	20,747	6,845	-	27,592
Compensated absences - current portion (Note 10)	14,520	6,277	-	20,797
Due to John Dempsey Hospital	14,083	-	(14,083)	-
Due to third party payors	-	23,223	-	23,223
Unearned revenues	1,827	226	-	2,053
Malpractice reserve (Note 10)	5,870	-	-	5,870
Long-term debt - current portion (Note 10)	6,090	486	-	6,576
Total current liabilities	<u>96,274</u>	<u>59,653</u>	<u>(14,083)</u>	<u>141,844</u>
Noncurrent Liabilities				
Malpractice reserve (Note 10)	18,987	-	-	18,987
Compensated absences - net of current portion (Note 10)	21,780	9,416	-	31,196
Pension Liability (Note 11)	945,261	288,138	-	1,233,399
Long-term debt - net of current portion (Note 10)	<u>198,822</u>	<u>1,701</u>	<u>-</u>	<u>200,523</u>
Total noncurrent liabilities	<u>1,184,850</u>	<u>299,255</u>	<u>-</u>	<u>1,484,105</u>
Total liabilities	<u>\$ 1,281,124</u>	<u>\$ 358,908</u>	<u>\$ (14,083)</u>	<u>\$ 1,625,949</u>
Deferred Inflows of Resources	<u>\$ 10,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,182</u>
NET POSITION				
Net investment in capital assets	\$ 459,054	\$ 364,271	\$ -	\$ 823,325
Restricted for				
Nonexpendable				
Scholarships	61	-	-	61
Expendable				
Research	(8)	-	-	(8)
Loans	31	-	-	31
Capital projects	37,061	-	-	37,061
Unrestricted	<u>(625,697)</u>	<u>(108,441)</u>	<u>-</u>	<u>(734,138)</u>
Total net position	<u>\$ (129,498)</u>	<u>\$ 255,830</u>	<u>\$ -</u>	<u>\$ 126,332</u>

UCONN HEALTH
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
POSITION
For the Year Ended June 30, 2017

(\$ in thousands)	2017				
	Primary Institution	John Dempsey Hospital	Total (Memo Only)	Eliminations	Consolidated
OPERATING REVENUES					
Student tuition and fees, net	\$ 17,499	\$ -	\$ 17,499	\$ -	\$ 17,499
Patient services, net	178,117	367,715	545,832	(6,055)	539,777
Federal grants and contracts	58,148	-	58,148	-	58,148
Nonfederal grants and contracts	29,009	-	29,009	-	29,009
Contract and other operating revenues	133,839	30,551	164,390	(50,106)	114,284
Total operating revenues	<u>416,612</u>	<u>398,266</u>	<u>814,878</u>	<u>(56,161)</u>	<u>758,717</u>
OPERATING EXPENSES					
Educational and General					
Instruction	191,572	-	191,572	(22,442)	169,130
Research	59,400	-	59,400	-	59,400
Patient services	340,032	407,029	747,061	(33,719)	713,342
Academic support	19,186	-	19,186	-	19,186
Institutional support	82,233	-	82,233	-	82,233
Operations and maintenance of plant	37,295	-	37,295	-	37,295
Depreciation and amortization	33,237	18,809	52,046	-	52,046
Student aid	194	-	194	-	194
Total operating expenses	<u>763,149</u>	<u>425,838</u>	<u>1,188,987</u>	<u>(56,161)</u>	<u>1,132,826</u>
Operating loss	<u>(346,537)</u>	<u>(27,572)</u>	<u>(374,109)</u>	<u>-</u>	<u>(374,109)</u>
NONOPERATING REVENUES (EXPENSES)					
State appropriations	278,211	-	278,211	-	278,211
Gifts	3,429	650	4,079	-	4,079
Hospital transfer	(36,756)	36,756	-	-	-
Investment income, net	104	-	104	-	104
Interest on capital asset - related debt	(10,185)	(29)	(10,214)	-	(10,214)
Net nonoperating revenues	<u>234,803</u>	<u>37,377</u>	<u>272,180</u>	<u>-</u>	<u>272,180</u>
Loss before other changes in net position	<u>(111,734)</u>	<u>9,805</u>	<u>(101,929)</u>	<u>-</u>	<u>(101,929)</u>
OTHER CHANGES IN NET POSITION					
Capital appropriations	43,479	-	43,479	-	43,479
Loss on Disposal	(849)	(140)	(989)	-	(989)
Net Other Changes in Net Position	<u>42,630</u>	<u>(140)</u>	<u>42,490</u>	<u>-</u>	<u>42,490</u>
Decrease in net position	<u>(69,104)</u>	<u>9,665</u>	<u>(59,439)</u>	<u>-</u>	<u>(59,439)</u>
NET POSITION					
Net position-beginning of year	<u>(60,394)</u>	<u>246,165</u>	<u>185,771</u>	<u>-</u>	<u>185,771</u>
Net position-end of year	<u>\$ (129,498)</u>	<u>\$ 255,830</u>	<u>\$ 126,332</u>	<u>\$ -</u>	<u>\$ 126,332</u>

STATISTICAL SECTION

SCHEDULE OF REVENUES BY SOURCE

	For the Year Ended June 30,									
	(amounts in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues:										
Student tuition and fees (net of scholarship allowances)	\$ 17,499	\$ 15,728	\$ 16,557	\$ 15,794	\$ 13,812	\$ 13,746	\$ 13,095	\$ 12,163	\$ 11,579	\$ 10,857
Patient services	539,777	532,876	512,960	450,315	432,032	429,546	422,094	405,660	413,226	399,252
Federal grants and contracts	58,148	59,529	57,920	62,527	60,651	56,904	60,127	59,358	60,479	61,214
Nonfederal grants and contracts	29,009	27,116	24,407	23,803	27,593	27,690	25,885	28,673	27,785	25,788
Contract and other operating revenues	114,284	108,017	109,324	106,771	102,574	93,730	71,694	58,791	52,018	50,418
Total operating revenues	<u>758,717</u>	<u>743,266</u>	<u>721,168</u>	<u>659,210</u>	<u>636,662</u>	<u>621,616</u>	<u>592,895</u>	<u>564,645</u>	<u>565,087</u>	<u>547,529</u>
State appropriations	278,211	289,287	280,645	266,139	213,371	202,997	225,268	218,484	208,531	190,743
Transfer from/(to) State and outside programs	-	-	-	-	-	1,312	(10,807)	(10,000)	-	-
Gifts	4,079	6,865	7,175	7,300	7,658	7,435	2,554	1,602	982	2,698
Investment income (net of investment expense)	104	141	176	93	124	101	134	2,506	5,885	6,625
Net nonoperating revenues	<u>282,394</u>	<u>296,293</u>	<u>287,996</u>	<u>273,532</u>	<u>221,153</u>	<u>211,845</u>	<u>217,149</u>	<u>212,592</u>	<u>215,398</u>	<u>200,066</u>
Total Revenues	<u>\$ 1,041,111</u>	<u>\$ 1,039,559</u>	<u>\$ 1,009,164</u>	<u>\$ 932,742</u>	<u>\$ 857,815</u>	<u>\$ 833,461</u>	<u>\$ 810,044</u>	<u>\$ 777,237</u>	<u>\$ 780,485</u>	<u>\$ 747,595</u>

	For the Year Ended June 30,									
	(percent of total revenues)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues:										
Student tuition and fees (net of scholarship allowances)	1.7%	1.5%	1.6%	1.7%	1.6%	1.7%	1.6%	1.6%	1.5%	1.5%
Patient services	51.8%	51.3%	50.9%	48.3%	50.4%	51.5%	52.1%	52.2%	52.9%	53.4%
Federal grants and contracts	5.6%	5.7%	5.7%	6.7%	7.1%	6.8%	7.4%	7.6%	7.7%	8.2%
Nonfederal grants and contracts	2.8%	2.6%	2.4%	2.6%	3.2%	3.3%	3.2%	3.7%	3.6%	3.4%
Contract and other operating revenues	11.0%	10.4%	10.9%	11.4%	11.9%	11.3%	8.9%	7.6%	6.7%	6.7%
Total operating revenues	<u>72.9%</u>	<u>71.5%</u>	<u>71.5%</u>	<u>70.7%</u>	<u>74.2%</u>	<u>74.6%</u>	<u>73.2%</u>	<u>72.7%</u>	<u>72.4%</u>	<u>73.2%</u>
State appropriations	26.7%	27.8%	27.8%	28.5%	24.9%	24.3%	27.8%	28.1%	26.7%	25.5%
Transfer from/(to) State and outside programs	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	-1.3%	-1.3%	0.0%	0.0%
Gifts	0.4%	0.7%	0.7%	0.8%	0.9%	0.9%	0.3%	0.2%	0.1%	0.4%
Investment income (net of investment expense)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.8%	0.9%
Net nonoperating revenues	<u>27.1%</u>	<u>28.5%</u>	<u>28.5%</u>	<u>29.3%</u>	<u>25.8%</u>	<u>25.4%</u>	<u>26.8%</u>	<u>27.3%</u>	<u>27.6%</u>	<u>26.8%</u>
Total Revenues	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION

For the Year Ended June 30,

(amounts in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses:										
Salaries and wages	\$ 444,948	\$ 452,363	\$ 430,988	\$ 418,305	\$ 403,159	\$ 391,890	\$ 377,149	\$ 363,741	\$ 374,301	\$ 359,204
Fringe benefits	331,533	264,911	239,288	223,850	180,323	128,613	162,684	151,534	143,393	140,420
Supplies and other expenses	291,166	282,218	286,170	258,778	237,013	266,778	229,952	217,425	215,290	201,814
Utilities	13,133	12,617	12,766	11,599	11,297	13,191	14,533	14,028	15,780	16,253
Depreciation and amortization	52,046	41,469	37,830	32,780	32,365	30,875	30,075	28,881	29,168	28,226
Total operating expenses	<u>1,132,826</u>	<u>1,053,578</u>	<u>1,007,042</u>	<u>945,312</u>	<u>864,157</u>	<u>831,347</u>	<u>814,393</u>	<u>775,609</u>	<u>777,932</u>	<u>745,917</u>
Interest on capital asset - related debt	10,214	10,487	3,820	1,007	1,072	1,095	1,570	2,364	2,574	2,768
Total nonoperating expenses	<u>10,214</u>	<u>10,487</u>	<u>3,820</u>	<u>1,007</u>	<u>1,072</u>	<u>1,095</u>	<u>1,570</u>	<u>2,364</u>	<u>2,574</u>	<u>2,768</u>
Total Expenses	<u>\$ 1,143,040</u>	<u>\$ 1,064,065</u>	<u>\$ 1,010,862</u>	<u>\$ 946,319</u>	<u>\$ 865,229</u>	<u>\$ 832,442</u>	<u>\$ 815,963</u>	<u>\$ 777,973</u>	<u>\$ 780,506</u>	<u>\$ 748,685</u>

For the Year Ended June 30,

(percent of total expenses)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses:										
Salaries and wages	38.9%	42.5%	42.6%	44.2%	46.6%	47.1%	46.2%	46.8%	48.0%	48.0%
Fringe benefits	29.0%	24.9%	23.7%	23.7%	20.8%	15.6%	19.9%	19.5%	18.4%	18.7%
Supplies and other expenses	25.5%	26.5%	28.3%	27.3%	27.4%	32.0%	28.2%	27.9%	27.6%	26.9%
Utilities	1.1%	1.2%	1.3%	1.2%	1.3%	1.6%	1.8%	1.8%	2.0%	2.2%
Depreciation and amortization	4.6%	3.9%	3.7%	3.5%	3.8%	3.7%	3.7%	3.7%	3.7%	3.8%
Total operating expenses	<u>99.1%</u>	<u>99.0%</u>	<u>99.6%</u>	<u>99.9%</u>	<u>99.9%</u>	<u>99.9%</u>	<u>99.8%</u>	<u>99.7%</u>	<u>99.7%</u>	<u>99.6%</u>
Interest expense	0.9%	1.0%	0.4%	0.1%	0.1%	0.1%	0.2%	0.3%	0.3%	0.4%
Total nonoperating expenses	<u>0.9%</u>	<u>1.0%</u>	<u>0.4%</u>	<u>0.1%</u>	<u>0.1%</u>	<u>0.1%</u>	<u>0.2%</u>	<u>0.3%</u>	<u>0.3%</u>	<u>0.4%</u>
Total Expenses	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SCHEDULE OF NET POSITION AND CHANGES IN NET POSITION

For the Year Ended June 30,
(amounts in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total revenues (from Schedule of revenues by source)	\$ 1,041,111	\$ 1,039,559	\$ 1,009,164	\$ 932,742	\$ 857,815	\$ 833,461	\$ 810,044	\$ 777,237	\$ 780,485	\$ 747,595
Total expenses (from schedule of expenses by natural classification and function)	<u>1,143,040</u>	<u>1,064,065</u>	<u>1,010,862</u>	<u>946,319</u>	<u>865,229</u>	<u>832,435</u>	<u>815,963</u>	<u>777,973</u>	<u>780,506</u>	<u>748,685</u>
Loss before other changes in net position	<u>(101,929)</u>	<u>(24,506)</u>	<u>(1,698)</u>	<u>(13,577)</u>	<u>(7,414)</u>	<u>1,026</u>	<u>(5,919)</u>	<u>(736)</u>	<u>(21)</u>	<u>(1,090)</u>
Capital appropriations	43,479	175,000	159,810	193,214	5,000	62,500	170	35,610	40,276	(165)
Loss on disposal	(989)	(695)	(3,902)	(573)	(2,978)	(7)	(482)	(38)	(281)	(228)
Net other changes in net position	<u>42,490</u>	<u>174,305</u>	<u>155,908</u>	<u>192,641</u>	<u>2,022</u>	<u>62,493</u>	<u>(312)</u>	<u>35,572</u>	<u>39,995</u>	<u>(393)</u>
Total changes in net position	<u>(59,439)</u>	<u>149,799</u>	<u>154,210</u>	<u>179,064</u>	<u>(5,392)</u>	<u>63,519</u>	<u>(6,231)</u>	<u>34,836</u>	<u>39,974</u>	<u>(1,483)</u>
Net position-beginning of year (as previously stated)	185,771	35,972	576,794	397,730	403,122	339,610	345,841	311,005	271,031	272,514
Cumulative effect of implementing GASB 68 and 71 (see note 1)	-	-	(695,032)	-	-	-	-	-	-	-
Net position-beginning of year as restated	<u>185,771</u>	<u>35,972</u>	<u>(118,238)</u>	<u>397,730</u>	<u>403,122</u>	<u>339,610</u>	<u>345,841</u>	<u>311,005</u>	<u>271,031</u>	<u>272,514</u>
Net position, ending	<u>\$ 126,332</u>	<u>\$ 185,771</u>	<u>\$ 35,972</u>	<u>\$ 576,794</u>	<u>\$ 397,730</u>	<u>\$ 403,122</u>	<u>\$ 339,610</u>	<u>\$ 345,841</u>	<u>\$ 311,005</u>	<u>\$ 271,031</u>
Net investment in capital assets	823,325	\$ 734,480	\$ 579,241	\$ 405,672	\$ 335,015	\$ 301,969	\$ 277,865	\$ 243,088	\$ 216,044	\$ 197,694
Restricted for										
Nonexpendable										
Scholarships	61	61	61	61	61	61	61	61	61	61
Expendable										
Research	(8)	(876)	(139)	547	1,982	3,436	4,047	4,359	4,251	4,031
Loans	31	953	1,348	104	794	1,081	875	1,864	2,401	2,512
Capital projects	37,061	117,466	104,082	152,707	30,829	51,287	5,758	30,649	32,802	14,362
Unrestricted	<u>(734,138)</u>	<u>(666,313)</u>	<u>(648,621)</u>	<u>17,703</u>	<u>29,049</u>	<u>45,288</u>	<u>51,004</u>	<u>65,820</u>	<u>55,446</u>	<u>52,371</u>
Total net position	<u>\$ 126,332</u>	<u>\$ 185,771</u>	<u>\$ 35,972</u>	<u>\$ 576,794</u>	<u>\$ 397,730</u>	<u>\$ 403,122</u>	<u>\$ 339,610</u>	<u>\$ 345,841</u>	<u>\$ 311,005</u>	<u>\$ 271,031</u>

SCHEDULE OF LONG-TERM DEBT

	For the Year Ended June 30, (amounts in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Bonds Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66
Loans Payable	-	-	-	-	-	415	1,245	2,076	2,906	3,737
Capital Leases	2,187	-	-	-	-	472	1,087	2,318	4,302	6,679
Mortgage Agreement	204,914	210,700	216,198	168,024	62,889	17,281	18,097	29,630	30,712	31,726
Total long-term debt	\$ 207,101	\$ 210,700	\$ 216,198	\$ 168,024	\$ 62,889	\$ 18,168	\$ 20,429	\$ 34,024	\$ 37,920	\$ 42,208

FACULTY AND STAFF

	For the Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
BARGAINING UNIT										
Faculty	529.4	517.6	507.8	512.8	508.0	505.7	486.8	-	-	-
University Health Professionals	2,477.0	2,462.8	2,420.4	2,457.9	2,440.1	2,375.1	2,285.0	2,220.1	2,189.4	2,141.5
All Other	1,356.0	1,404.6	1,422.1	1,437.9	1,436.9	1,430.8	1,401.6	1,420.9	1,431.2	1,413.6
Total FTE's	4,362.4	4,385.0	4,350.3	4,408.6	4,385.0	4,311.6	4,173.4	3,641.0	3,620.6	3,555.1
EXEMPT										
Faculty	56.2	56.8	60.6	61.5	60.5	60.1	57.8	545.5	563.7	557.5
Managerial	153.9	160.6	159.3	158.3	156.2	151.9	144.1	145.0	152.0	151.9
All Other	335.1	329.3	353.2	392.7	404.1	408.9	369.0	376.7	368.4	400.4
Total FTE's	545.2	546.7	573.1	612.5	620.8	620.9	570.9	1,067.2	1,084.1	1,109.8
TOTAL FTE's	4,907.6	4,931.7	4,923.4	5,021.1	5,005.8	4,932.5	4,744.3	4,708.2	4,704.7	4,664.9

**SCHEDULE OF CAPITAL ASSET INFORMATION
DETAIL FOR BUILDINGS ONLY - BY FUNCTION**

	For the Fiscal Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Academic										
Net assignable square feet (in thousands)	82	74	74	74	74	74	74	74	74	74
Number of buildings/major areas of Main Building*	2	1	1	1	1	1	1	1	1	1
Research buildings										
Net assignable square feet (in thousands)	456	456	435	435	435	442	442	442	442	442
Number of buildings/major areas of Main Building*	6	6	6	6	6	17	17	17	17	17
Patient care buildings										
Net assignable square feet (in thousands)	885	885	662	529	529	529	529	529	529	529
Number of buildings/major areas of Main Building*	6	6	6	8	8	8	8	8	8	8
Administrative and support buildings										
Net assignable square feet (in thousands)	865	873	769	769	698	179	179	179	179	179
Number of buildings/major areas of Main Building*	11	12	11	11	10	9	9	9	9	9
Total net assignable square feet (in thousands)	<u>2288</u>	<u>2288</u>	<u>1940</u>	<u>1807</u>	<u>1736</u>	<u>1224</u>	<u>1224</u>	<u>1224</u>	<u>1224</u>	<u>1224</u>
Number of buildings/major areas of Main Building*	<u>25</u>	<u>25</u>	<u>24</u>	<u>26</u>	<u>25</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>35</u>

*** Notes**

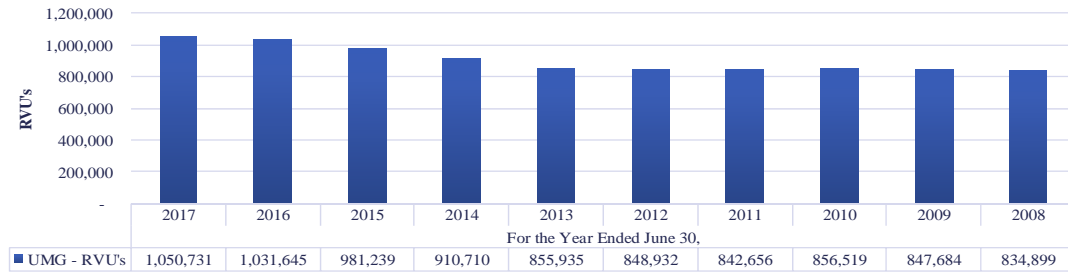
The Main Building at UConn Health has commonly been understood and tracked by major areas assigned separate names and alphanumeric identifiers. These areas are counted as buildings here. Many buildings have more than one usage. For the purposes of this schedule, the buildings (or areas of the Main Building) are categorized according to their primary use. Parking garages are included under administrative and support buildings, and the parking is included in the NASF. Total NASF for G1, G2, and G3 = 695 (in thousands) Buildings 9 and 28 were incorporated into Building 8 in 2009. For the purposes of this schedule, they are considered to have always been part of Building 8.

RVU'S AND DISCHARGES

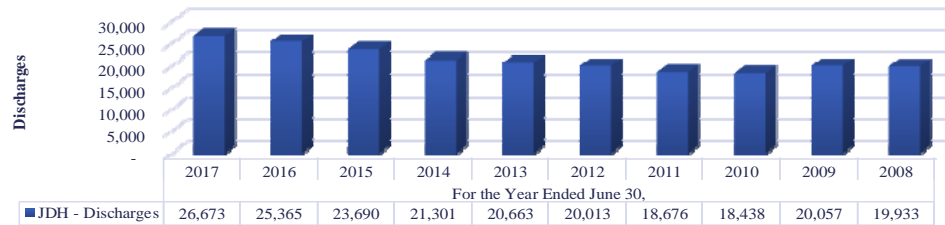
	For the Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
UMG - RVU's	1,050,731	1,031,645	981,239	910,710	855,935	848,932	842,656	856,519	847,684	834,899

	For the Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
JDH - Discharges	26,673	25,365	23,690	21,301	20,663	20,013	18,676	18,438	20,057	19,933

**RVU'S
TEN YEAR COMPARISON**



**DISCHARGES
TEN YEAR COMPARISON**



DEMOGRAPHIC AND ECONOMIC STATISTICS

State of Connecticut
Last Ten Fiscal Years

Year	Personal Income as of June 30 (a)	Population at July 1 (a)	Per Capita Personal Income	Average Annual Unemployment Rate (b)
2017	\$ 251,389,254,000	3,568,714	\$ 70,443	4.8%
2016	252,249,206,000	3,586,640	70,330	5.5%
2015	240,602,679,000	3,591,282	66,996	6.1%
2014	232,600,172,000	3,596,922	64,666	7.1%
2013	222,984,316,000	3,598,628	61,964	8.1%
2012	224,252,008,000	3,593,857	62,399	8.4%
2011	215,220,960,000	3,589,072	59,966	9.1%
2010	205,145,596,000	3,576,676	57,356	8.8%
2009*	197,824,664,000	3,561,807	55,541	6.9%
2008*	206,731,668,000	3,545,579	58,307	4.9%

(a) Source: U.S. Department of Commerce

(b) Source: Connecticut Department of Labor

*Quarterly population not available. Annual population used 2008-2009

DEMOGRAPHIC AND ECONOMIC STATISTICS
TOP TEN NONGOVERNMENTAL EMPLOYERS
State of Connecticut
Current Year and Ten Years Ago

<u>Name</u>	2017			
	<u>Employees in CT</u>	<u>Percentage of Total CT Employment</u>	<u>Rank</u>	
United Technologies Corp. UTC	20,000	1.1%	1	(1)
Stop & Shop Co. LLC	13,574	0.7%	2	(2)
Foxwoods Resort Casino	10,500	0.6%	3	
Aetna Inc.	10,001	0.5%	4	
Yale University & Health Sys	11,530	0.6%	5	
Immucor (medical supply)	7,200	0.4%	6	
General Dynamics/Electric Boat	6,100	0.3%	7	
Hartford Hospital	6,053	0.3%	8	
Mohegan Sun Casino	6,000	0.3%	9	
Eversource Energy	5,000	0.3%	10	
Hartford Financial Services	5,000	0.3%	10	
Total	100,958	5.4%		

<u>Name</u>	2008		
	<u>Employees in CT</u>	<u>Percentage of Total CT Employment</u>	<u>Rank</u>
United Technologies Corp. UTC	26,490	1.5%	1
Stop & Shop Co. LLC	13,574	0.8%	2
Hartford Financial Services	13,000	0.7%	3
Yale University	12,163	0.7%	4
Foxwoods Resort Casino	12,000	0.7%	5
Mohegan Sun Casino	10,000	0.6%	6
Walmart Stores, Inc.	9,204	0.5%	7
General Dynamics/Electric Boat	7,400	0.4%	8
Aetna Inc.	7,300	0.4%	9
AT&T Connecticut	7,000	0.4%	10
Total	118,131	6.7%	

Sources: 2008 - Hartford Business Journal (HBJ), 2017 Infogroup, Omaha, NE

(1) Includes Sikorsky Aircraft, UTC Aerospace, Pratt & Whitney - Business units of UTC.

(2) Omitted from the HBJ survey. The number equals the employees reported by HBJ in 2008.