UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

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

JUNE 30, 2018 AND 2017

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

CONTENTS

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the financial position and activities of the University of Connecticut Health Center UConn Medical Group (UConn Medical Group or UMG) as of and for the years ended June 30, 2018, 2017, and 2016. UMG is operated as a separate, identifiable unit (included in the 12018 fund) of the University of Connecticut Health Center (UConn Health). The 12018 fund represents the operating fund for all the entities that comprise UConn Health. UMG has access to the funds available in the 12018 fund to fund its operations.

This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

UMG's clinical operations are modeled, in part, on private group practices and include over 400 providers practicing in a wide variety of specialties. UMG's operation is an essential element for the education and training of medical students that enables the University of Connecticut School of Medicine to accomplish its mission. Medical students, for example, learn diagnosis and treatment by training side-by-side with faculty clinicians as these doctors see patients. Funds transferred from UConn Health support this educational mission.

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

FINANCIAL HIGHLIGHTS

UMG's financial position at June 30, 2018, consisted of assets of $30.7 million, deferred outflows of $54.2 million, liabilities of $351.6 million, and deferred inflows of $4.8 million. Net position, which represents the residual interest in UMG's assets and deferred outflows after liabilities and deferred inflows are deducted, decreased approximately $192.6 million to a net deficit position of $271.4 million as of June 30, 2018, which was mainly due to the implementation of GASB 75 along with current year activities as shown in the statements of revenues, expenses, and changes in net position.

Fiscal year 2018 total operating revenues increased 6.6% or approximately $6.8 million. Operating expenses increased $6.2 million over the prior year. Overall, operational results were favorable to prior year by $664,000.

FINANCIAL HIGHLIGHTS (CONTINUED)

The amount of support transferred from UConn Health in the current year increased by approximately $10.3 million from fiscal year 2017, to $63.3 million. Despite nonoperating transfers from UConn Health, UMG recognized an overall decrease in net position of $192.6 million in the current fiscal year.

Changes in net position represent the activity of UMG, resulting from revenues, expenses, gains, losses, transfers and cumulative effect of changes in accounting principles and are summarized for the years ended June 30, 2018, 2017 and 2016, including other changes in net position, as follows:

	2018	2017	2016
		(in thousands)	
Summary of assets, liabilities and net position at June 30:			
Current assets	$ 9,552	$ 11,680	$ 11,155
Capital and intangible assets, net	21,194	21,934	21,789
Total assets	$ 30,746	$ 33,614	$ 32,944
Deferred outflows for pensions	44,676	60,170	24,401
Deferred outflows for OPEB	9,559	--	--
Total deferred outflows	$ 54,235	$ 60,170	$ 24,401
Current liabilities	$ 26,440	$ 25,723	$ 15,023
Noncurrent liabilities	325,201	146,859	100,268
Total liabilities	351,641	172,582	115,291
Deferred inflows for OPEB	$ 4,754	$ --	$ --
Net investment in capital assets	$ 21,194	$ 21,933	$ 21,789
Unrestricted deficit	(292,608)	(100,731)	(79,735)
Total net position	$ (271,414)	$ (78,798)	$ (57,946)
Summary of revenues, expenses and transfers for the year ended June 30:			
Operating revenues	$ 110,876	$ 104,051	$ 102,812
Operating expenses	183,977	177,816	166,872
Loss from operations	(73,101)	(73,765)	(64,060)
Nonoperating (expenses) revenues, net	(2,363)	(95)	16
Net loss	(75,464)	(73,860)	(64,044)
Transfers, net	63,295	53,008	54,242
Cumulative effect of change in accounting principles	(180,447)	--	--
Decrease in net position	$ (192,616)	$ (20,852)	$ (9,802)

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows) present the financial position of UMG at June 30, 2018 and 2017, and the results of its operations and financial activities for the years then ended. These statements report information about UMG using accounting methods similar to those used by private-sector companies. The statements of net position include all of UMG's assets, liabilities and deferred inflows and outflows. The statements of revenues, expenses, and changes in net position reflect the years' activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not when cash is received or paid. These statements report UMG's net position and how it has changed. Net position (the difference between assets and liabilities adjusted for deferred outflows and inflows) is one way to measure financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as operating, investing, noncapital financing activities, and capital and related financing activities. The financial statement footnotes include notes that explain information in the financial statements and provide more detailed data.

SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS

In this section, UMG explains the reasons for financial statement items with significant variances comparing fiscal year 2018 to fiscal year 2017.

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets are comprised of the following:

Patient Accounts Receivable – decreased approximately $1.5 million from June 30, 2017 to June 30, 2018, due to the conversion to My UConn Health, which resulted in a decrease in visits and associated billings in the last 2 months of the year.

Inventory – decreased approximately $325,000 from June 30, 2017 to June 30, 2018, mostly due to the implementation of a new pharmaceutical dispensing and tracking system, Pyxis.

Changes in liabilities are comprised of the following:

Cash overdraft – increased from June 30, 2017 to June 30, 2018 by approximately $2.1 million, to a net overdraft position of $5.6 million. Increase in cash overdraft was primarily driven by operating losses.

Due to JDH – in 2017, UMG received a working capital advance from John Dempsey Hospital (JDH) for $9.6 million representing capital advances to be used in the payment of invoices for My UConn Health system installation during fiscal 2018. As UMG paid such invoices and was subsequently reimbursed from project funding, it returned those funds to JDH. The balance at the end of fiscal 2018 was $5.6 million.

SUMMARY OF ASSETS AND LIABILITIES (CONTINUED)

Accounts payable and accrued expenses – increased approximately $2.2 million from June 30, 2017 to June 30, 2018, mostly due to the accrual of My UConn Health contractor support services during the My UConn Health go-live phase.

Pension liabilities – decreased approximately $11.5 million from June 30, 2017 to June 30, 2018. The decrease in the current year is due to changes in UMG's pension costs. UMG ended the year with a pension liability of $130.9 million which represents its proportional share of the SERS and Teachers' Retirement System pension plans as determined by UMG's percentage of overall contributions.

OPEB liabilities - increased approximately $189.2 million from June 30, 2017 to June 30, 2018, due to implementation of GASB 75. This represents UMG's proportional share of the State's OPEB as determined by UMG's percentage of overall contributions.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues

Total operating revenue increased from June 30, 2017 to June 30, 2018 by approximately $6.8 million or 6.6%.

- *Net patient service revenues* – increased $8.2 million or 8.8% from prior year, mostly attributed to an increase in providers in fiscal year 2018.

- *Contract and other revenues* – decreased by approximately $1.4 million, mostly due to the absence of the Women's Health Center contract.

Operating expenses

Total operating expense increased from June 30, 2017 to June 30, 2018 by approximately $6.2 million or 3.5%.

- *Pharmaceutical/medical supplies* – increased from June 30, 2017 to June 30, 2018 by approximately $944,000. Pharmaceutical increases were driven by new therapies in Orthopedics and increases in Ear, Nose and Throat (ENT) therapies, while medical supplies were impacted by increases in Audiology expenses including hearing aids purchased for resale.

- *Outside and other purchased services* – increased from June 30, 2017 to June 30, 2018 by approximately $2.7 million, primarily driven by My UConn Health's operational support expenses.

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

Other expenses – increased by approximately $1.0 million from June 30, 2017 to June 30, 2018, mostly driven by the expensing of non-capitalizable equipment for My UConn Health.

SUMMARY OF CASH FLOWS

The statements of cash flows provide additional information about UMG's financial results by reporting the major sources and uses of cash. A summary of the statements of cash flows for the years ended June 30, 2018, 2017, and 2016, is as follows:

	2018	2017	2016
		(in thousands)	
Cash received from operations	$ 112,679	$ 103,577	$ 102,227
Cash expended for operations	(166,649)	(160,802)	(159,237)
Net cash used in operations	(53,970)	(57,225)	(57,010)
Net cash provided by noncapital financing activities	65,353	53,696	57,161
Net cash (used in) / provided by capital and related financing activities	(11,383)	3,529	(1,026)
Net change in cash	--	--	(875)
Cash - Beginning of year	--	--	875
Cash - End of year	$ --	$ --	$ --

CAPITAL ACTIVITIES

At June 30, 2018, UMG had capital and intangible assets, net of accumulated depreciation, of $21.2 million. For fiscal 2019, all UConn Health capital requests will be considered for funding on an individual basis by the senior executive committee of UConn Health.

More detailed information about UMG's capital and intangible assets activities are presented in note 6 of the financial statements.

FISCAL YEAR 2019 OUTLOOK

As we look forward to fiscal year 2019, UConn Health is poised to capitalize on the transformation of its campus and the growth of its faculty to continue competing aggressively to be the provider of choice not only in the Farmington Valley, but throughout Connecticut.

Research, education, and patient care remain the cornerstones of UConn Health's mission. Each 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 UConn Health's 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 physician practices serve their communities. In response, UConn Health will actively explore the possibility of public private partnerships that may be beneficial to the finances and operations of UMG. UConn Health's patient volumes continue to grow as its programs and tactics adapt to changing population demographics, needs and treatment demands. Management believes that their best in market campus, strong and growing medical staff and consistent marketing voice in the community provide UConn Health with the advantages it needs to compete effectively in the marketplace.

Throughout fiscal year 2018, UConn Health had focused much of its information technology attention and resources on training and implementing a state-of-the-art electronic health system, My UConn Health. On April 28, 2018, My UConn Health successfully went live and UConn Health officially converted all of the medical records from the prior system to My UConn Health. The installation resulted in a new medical records system throughout UConn Health, linking patients via a single electronic health record (EHR) and positions UMG for compliance with the third stage of meaningful use requirements. This EHR allows for sharing and receiving of the latest medical history of patients being cared for both at UConn Health and at other institutions, while providing its clinicians, researchers and educators with a clinical platform to support their ongoing missions. This endeavor 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 UConn Health's 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. This is a prominent driving factor in the exploration of public private partnership.

FISCAL YEAR 2019 OUTLOOK (CONTINUED)

On July 31, 2017, the State Legislature approved the State Employees Bargaining Agent Coalition (SEBAC) 2017 agreement that was ratified by union membership. In addition, contracts were ratified for all of UConn Health bargaining units participating in SEBAC. The SEBAC 2017 agreement includes 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 MEDICAL GROUP'S FINANCIAL MANAGEMENT

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

INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
University of Connecticut Health Center

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Connecticut Health Center UConn Medical Group (UConn Medical Group), a component unit of the State of Connecticut, as of and for the years ended June 30, 2018 and 2017, and the related notes to financial statements, which collectively comprise UConn Medical Group's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Connecticut Health Center UConn Medical Group as of June 30, 2018 and 2017, and the results of its operations and changes in net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the UConn Medical Group adopted Governmental Accounting Standards No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which resulted in UConn Medical Group restating net position for the recognition of UConn Medical Group's other postemployment benefit activity incurred prior to July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as Management's Discussion and Analysis on pages 1 through 7, the Schedule of Changes in UConn Medical Group's Net OPEB Liability and Related Ratios on page 48, Schedule of UConn Medical Group's Proportionate Share of the Net OPEB Liability on page 49, the Schedule of UConn Medical Group's OPEB Contributions on page 50, the Schedule of Changes in UConn Medical Group's Net Pension Liability and Related Ratios on page 51, and the Schedule of Pension Contributions on page 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the UConn Medical Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UConn Medical Group's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UConn Medical Group's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
November 30, 2018

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	2018	2017
Assets		
Current Assets		
Patient accounts receivable, net of estimated uncollectibles of $2,744,000 and $2,817,000 at June 30, 2018 and 2017, respectively	$ 9,101,230	$ 10,633,438
Inventory	263,692	589,043
Contract and other receivables	96,837	367,510
Prepaid expenses	90,460	90,415
Total Current Assets	9,552,219	11,680,406
Noncurrent Assets		
Capital and intangible assets, net (note 6)	21,194,333	21,933,543
Total Noncurrent Assets	21,194,333	21,933,543
Total Assets	30,746,552	33,613,949
Deferred Outflows of Resources		
Deferred amount for pensions	44,675,709	60,170,347
Deferred amount for OPEB	9,558,732	--
Total Deferred Outflows of Resources	54,234,441	60,170,347

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2018 AND 2017

	2018	2017
Liabilities and Net Position		
Current Liabilities		
Cash overdraft	$ 5,622,734	$ 3,564,679
Accounts payable and accrued expenses	4,265,303	2,109,784
Accrued payroll	7,913,072	7,440,755
Due to UConn Health Malpractice Fund	12,539	17,352
Due to JDH	5,600,000	9,600,000
Accrued compensated absences, current portion (note 7)	3,026,756	2,990,754
Total Current Liabilities	26,440,404	25,723,324
Noncurrent Liabilities		
Pension liabilities (note 8)	130,934,626	142,454,023
OPEB liabilities (note 8)	189,229,897	--
Accrued compensated absences, noncurrent portion (note 7)	5,035,992	4,404,780
Total Noncurrent Liabilities	325,200,515	146,858,803
Total Liabilities	351,640,919	172,582,127
Deferred Inflows of Resources		
Deferred amount for OPEB	4,753,967	--
Total Deferred Inflows of Resources	4,753,967	--
Net Position		
Net investment in capital assets	21,194,333	21,933,543
Unrestricted deficit	(292,608,226)	(100,731,374)
Total Net Position	$ (271,413,893)	$ (78,797,831)

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues		
Net patient service revenues (note 3)	$ 101,475,291	$ 93,242,414
Contract and other revenues	9,401,318	10,808,902
Total Operating Revenues	110,876,609	104,051,316
Operating Expenses		
Salaries and wages	85,982,460	85,429,059
Fringe benefits	49,764,087	49,478,499
Medical contractual support	7,077,629	6,794,917
Internal contractual support	14,418,232	14,650,806
Outside agency per diems	458,695	348,186
Depreciation and amortization	5,758,884	5,832,194
Pharmaceutical/medical supplies	6,603,601	5,659,652
Utilities	235,062	216,224
Outside and other purchased services	10,492,222	7,838,654
Insurance	761,037	292,258
Repairs and maintenance	889,020	740,935
Other expenses	1,536,094	534,535
Total Operating Expenses	183,977,023	177,815,919
Operating Loss	(73,100,414)	(73,764,603)
Nonoperating Expenses		
Loss on disposals	(2,363,104)	(95,000)
Net Nonoperating Expenses	(2,363,104)	(95,000)
Loss before Transfers	(75,463,518)	(73,859,603)
Net Transfers from UConn Health - Unrestricted (note 9)	63,294,527	53,007,642
Decrease in Net Position	(12,168,991)	(20,851,961)
Net Position - Beginning of year (as previously stated)	(78,797,831)	(57,945,870)
Cumulative Effect of Implementing GASB 75	(180,447,071)	--
Net Position - Beginning of year as restated	(259,244,902)	(57,945,870)
Net Position - End of year	$ (271,413,893)	$ (78,797,831)

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 103,007,499	$ 93,042,865
Cash received from contract and other revenues	9,671,991	10,534,329
Cash paid to employees for salaries and fringe benefits	(134,607,016)	(134,337,600)
Cash paid for other than personnel services	(32,042,278)	(26,464,251)
Net Cash Used in Operating Activities	(53,969,804)	(57,224,657)
Cash Flows from Noncapital Financing Activities		
Net transfers from UConn Health's unrestricted net assets to support operations	63,294,527	53,007,642
Net draw downs on cash overdraft	2,058,055	688,504
Net Cash Provided by Noncapital Financing Activities	65,352,582	53,696,146
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(7,382,778)	(6,071,489)
(Repayment to) Advances from JDH	(4,000,000)	9,600,000
Net Cash (Used in) Provided by Capital and Related Financing Activities	(11,382,778)	3,528,511
Net Change in Cash	--	--
Cash - Beginning	--	--
Cash - End	$ --	$ --

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (73,100,414)	$ (73,764,603)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	5,758,884	5,832,194
Non-cash portion of pension expense	3,975,241	10,603,144
Non-cash portion of OPEB	3,978,061	--
Changes in operating assets and liabilities:		
Patient accounts receivable	1,532,208	(199,549)
Inventory	325,351	(33,231)
Contract and other receivables	270,673	(274,573)
Prepaid expenses	(45)	(18,216)
Accounts payable and accrued expenses	2,155,519	60,219
Due to UConn Health Malpractice Fund	(4,813)	--
Accrued payroll	472,317	291,085
Accrued compensated absences	667,214	278,873
Net Cash Used in Operating Activities	$ (53,969,804)	$ (57,224,657)

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

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

REPORTING ENTITY

The University of Connecticut Health Center UConn Medical Group (UConn Medical Group or UMG) clinical operations are modeled, in part, on private group practices and include over 400 providers practicing in a wide variety of specialties.

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

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

BASIS OF PRESENTATION

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

PROPRIETARY FUND ACCOUNTING

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial statement areas where management applies the use of estimates consist primarily of contractual allowances, the allowance for uncollectible accounts, pension and OPEB liabilities.

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

ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUES

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

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

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 (including building improvements) have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years. Leasehold improvements are depreciated over the expected life of the assets, but no longer than the lease term. For projects other than the development of computer software, construction in progress is capitalized as costs are incurred during the construction phase and depreciation will begin once the assets are placed in service.

INTANGIBLE ASSETS

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

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

IMPAIRMENT OF LONG-LIVED ASSETS

UMG records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. As described above, during 2018, UMG implemented My UConn Health, a new electronic health system, which replaced the Seimens NextGen system (NextGen). NextGen was written off in 2018 and the loss on disposal was approximately $2 million. No impairment losses were recorded in 2017.

INVENTORY

Inventory is recorded at cost, determined by the first-in, first-out (FIFO) method. Short-term or minor supplies are expensed as incurred.

CASH AND CASH OVERDRAFT

Cash balances are included in a pooled cash account with the cash balances of the other entities included in the 12018 fund. Cash overdraft positions, which occur when total outstanding issued checks exceed available cash balances at the end of each reporting period, are presented as a liability within the statements of net position. See note 10 for discussion regarding UMG's available borrowing.

COMPENSATED ABSENCES

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

THIRD-PARTY PAYORS

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

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

MEDICAL MALPRACTICE

The physicians and all of the health care providers and support staff of UMG are fully protected by State Statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against UConn Health's malpractice self-insurance fund. UConn Health allocates an annual malpractice premium to UMG, designed to reflect an estimate for the current year's cash claims to be processed. For the years ended June 30, 2018 and 2017, such premiums were approximately $150,000 and $208,000. These premiums are included in insurance expense in UMG's statements of revenues, expenses, and changes in net position. The due to UConn Health Malpractice Fund reported on the June 30, 2018 and 2017 statements of net position represents premiums payable for occurrence based coverage through June 30, 2018 and 2017, respectively.

RECLASSIFICATIONS

Certain reclassifications were made to the 2017 and 2016 capital assets disclosed in note 6 to separately disclose computer software to conform to the current year presentation.

NET POSITION

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

RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

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

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

PENSION LIABILITIES

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

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

PENSION LIABILITIES (CONTINUED)

Information about the fiduciary net position and additions to/deductions from each pension plan's fiduciary net position 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.

OPEB LIABILITIES

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

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

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

NOTE 2 - RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

As the SEOPEBP did not have a practical way to provide each of its component units with all of the information needed to fully restate their prior period financial statements, UMG has elected to apply the "cumulative effect" method, as permitted by GASB 75, by restating its beginning net position as of July 1, 2017. The implementation of this standard resulted in an adjustment to reduce UMG's beginning net position by $180.4 million as of July 1, 2017.

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

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

NOTE 2 - RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS (CONTINUED)

UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as 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. UMG is currently evaluating the impact this standard will have on its financial statements.

NOTE 3 - PATIENT SERVICE REVENUES

UMG provides health care services primarily to residents of the region. Revenues from the Medicare program accounted for approximately 36% and 31% of UMG's net patient service revenues for the years ended June 30, 2018 and 2017, respectively. Revenues from the Medicaid program accounted for approximately 21% and 13% of UMG's net patient service revenues for the years ended June 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. UMG believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on UMG.

Patient accounts receivable included approximately 17% and 11% due from Medicaid at June 30, 2018 and 2017, respectively. Approximately 29% and 35% was due from Medicare at June 30, 2018 and 2017, respectively.

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

	2018	2017
Gross patient service revenues	$ 255,472,733	$ 231,943,618
Less contractual allowances	(152,636,528)	(136,559,524)
Less provision for bad debt	(1,360,914)	(2,141,680)
Net patient service revenues	$ 101,475,291	$ 93,242,414

NOTE 3 - PATIENT SERVICE REVENUES (CONTINUED)

UMG has agreements with certain third-party payors that provide for payments to UMG at amounts different from established billing rates. A summary of these agreements are as follows:

MEDICARE

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

MEDICAID

Services are reimbursed based on Medicaid fee schedules except for select third-party payors and out of state Medicaid. These third-parties reimburse UMG based upon their own individual fee schedules. In fiscal years 2018 and 2017, UMG received $3.9 million and zero, respectively, in supplemental payments from the Department of Social Services (DSS) which have been recorded as net patient service revenues in the statements of revenues, expenses, and changes in net position.

BLUE CROSS HOSPITAL-BASED PROVIDERS

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

BLUE SHIELD

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

MANAGED CARE

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

NOTE 3 - PATIENT SERVICE REVENUES (CONTINUED)

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

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

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

NOTE 4 - CONTRACT AND OTHER REVENUES

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

CHARITY CARE

UMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During 2018 and 2017, UMG provided charity care services with costs of $54,612 and $54,156, respectively.

NOTE 5 - ELECTRONIC HEALTH RECORD REIMBURSEMENT

The Health Information Technology for Economic and Clinical Health Act (the HITECH Act) was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of electronic health records by health professionals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible physicians participating in the Medicare and Medicaid programs were eligible for reimbursement incentives based on successfully demonstrating meaningful use of certified Electronic Health Record (EHR) technology. Conversely, those physicians that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in reimbursements beginning in fiscal year 2016. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals for efforts to adopt, implement, and meaningfully use certified EHR technology. UMG utilizes a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant period to determine the amount of reimbursement. EHR incentive payment revenue totaling approximately $451,000 and $416,000 for the years ended June 30, 2018 and 2017, respectively, is included in contract and other revenues in the accompanying statements of revenues, expenses and changes in net position. UMG's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

NOTE 6 - CAPITAL AND INTANGIBLE ASSETS, NET

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

	2018	2017
Land	$ 89,132	$ 89,132
Construction in progress (estimated cost to complete $500,562 at June 30, 2018)	1,159,803	8,461,597
Buildings and leasehold improvements	13,183,237	12,776,989
Equipment	12,104,019	16,360,774
Computer software	14,354,496	12,749,356
	40,890,687	50,437,848
Less accumulated depreciation	19,696,354	28,504,305
Capital and intangible assets, net	$ 21,194,333	$ 21,933,543

NOTE 6 - CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

Activity for the years ended June 30, 2018 and 2017 was as follows:

	2017	Additions	Deductions	2018
Land	$ 89,132	$ --	$ --	$ 89,132
Construction in progress	8,461,597	7,728,926	(15,030,720)	1,159,803
Buildings and leasehold improvements	12,776,989	406,248	--	13,183,237
Equipment	16,360,774	1,091,626	(5,348,381)	12,104,019
Computer software	12,749,356	13,186,698	(11,581,558)	14,354,496
	$ 50,437,848	$ 22,413,498	$ (31,960,659)	$ 40,890,687

	2016	Additions	Deductions	2017
Land	$ 89,132	$ --	$ --	$ 89,132
Construction in progress	3,948,055	6,043,041	(1,529,499)	8,461,597
Buildings and leasehold improvements	12,622,847	392,594	(238,452)	12,776,989
Equipment	15,889,958	1,147,853	(677,037)	16,360,774
Computer software	12,731,856	17,500	--	12,749,356
	$ 45,281,848	$ 7,600,988	$ (2,444,988)	$ 50,437,848

Related information on accumulated depreciation for the years ended June 30, 2018 and 2017 was as follows:

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

NOTE 6 - CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

	2016	Additions	Deductions	2017
Buildings and leasehold improvements	$ 7,704,441	$ 823,998	$ (185,547)	$ 8,342,892
Equipment	9,753,512	2,659,205	(634,942)	11,777,775
Computer software	6,034,647	2,348,991	--	8,383,638
	$ 23,492,600	$ 5,832,194	$ (820,489)	$ 28,504,305

During 2018, UMG placed My UConn Health in service, which had total capitalized hardware and software costs of approximately $13.6 million representing UMG's share of the cost of the system that met the criteria for capitalization from the inception of the project. The My UConn Health system is being depreciated over 10 years and related hardware is being depreciated between 3 to 10 years.

NOTE 7 - LONG-TERM LIABILITIES AND OPERATING LEASES

Activity related to compensated absences for the years ended June 30, 2018 and 2017 was as follows:

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

	June 30, 2016 Balance	Additions	Deductions	June 30, 2017 Balance	Amounts due within 1 year
Accrued compensated absences	$ 7,116,661	$ 5,192,219	$ (4,913,346)	$ 7,395,534	$ 2,990,754

UMG leases office space under operating leases. Total rental expense for the years ended June 30, 2018 and 2017 was $10,144,927 and $9,999,714, respectively, which is included in either internal contractual support expense or outside purchased services expense in the statements of revenues, expenses and changes in net position. The portion of rental expense paid to UConn Health, recorded as internal contractual support for the years ended June 30, 2018 and 2017, was $7,394,007 and $7,326,876, respectively.

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

The Outpatient Pavilion was opened in 2015 and UMG leases space in the facility under a sublease from UConn Health. While the sublease is expected to be renewed on an annual basis, there is no written sublease that extends beyond a one year period. UConn Health has leased the Outpatient Pavilion from Finance Corporation under a direct financing lease that expires on March 31, 2040. Rent expense, related to the Outpatient Pavilion, based on square footage, was approximately \$6.5 million and \$6.4 million for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule by year of existing future minimum lease payments under non-cancelable operating leases as of June 30, 2018, in addition to space in the Outpatient Pavilion through the sublease with UConn Health based on the assumption that the sublease will be extended annually through March 31, 2040.

Year ending June 30,	
2019	$ 9,343,037
2020	9,291,627
2021	9,243,486
2022	9,128,432
2023	9,097,810
Thereafter	152,671,623
	$ 198,776,015

NOTE 8 – PENSION AND OPEB PLANS

Employees of UMG are eligible to participate in the State Employees' Retirement System, a defined benefit pension plan, which is administered by the State Employees' Retirement Commission, the State of Connecticut Deferred Compensation Section 457 Plan (the Alternate Retirement Plan or ARP), a defined contribution plan administered by the State, or the Connecticut State Teacher’s Retirement System (TRS), a defined benefit plan administered by the Teacher’s Retirement Board, collectively, the “plans”. Through their participation in one of the above plans, employees are also enrolled in the SEOPEBP. Information on the plans’ total funding status and progress, contributions required and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report available on the State's website. Information for the SERS and OPEB plans, in which UMG holds significant liabilities under GASB 68 and GASB 75, respectively, is presented below.

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION

SERS is a single-employer defined benefit Public Employees' Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of five tiers. Tier I, Tier IIA, and Tier III are contributory plans and Tier II is a non-contributory plan. The fifth tier is called the Hybrid Plan. All Higher Education Employees that are eligible for the Alternative Retirement Plan may elect the Hybrid Plan (described below).

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

Tier I Plan B participants contribute 2% or 5% of their pay, depending on their elections. Tier II Plan A and Tier III participants contribute 2% of their pay. Members who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Tier I employees who retire at or after age 65 with 10 years of credited service, or at or after age 55 with 25 years of service, or at age 55 with 10 years of credited service with reduced benefits are entitled to an annual retirement benefits payable monthly for life, in the amount of 2% of the annual average earnings (which are based on the three highest years of service) over $4,800 plus 1% of $4,800 for each year of credited service. Tier II employees who retire at or after age 60 with 25 years of service, or at age 62 with 10 years of service, or at age 70 with 5 years of service, or at age 55 with 10 years of service with reduced benefits are entitled to 1.4% times average salary at or below the breakpoint in the year of retirement, for each year of credited service. Tier III covers employees first hired on or after July 1, 2011. Tier III employees to retire at, or after age 63 with 25 years of service, or at age 65 with 10 years of service, or at age 58 with 10 years of service with reduced benefits are entitled to 1.4% times average salary at or below the breakpoint in the year of retirement, for each year of credited service. All Tier I, Tier II, Tier IIA, and Tier III members are vested after ten years.

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

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

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

The pension liability recorded as of June 30, 2018 was based on the June 30, 2017 actuarial valuation and the liability recorded as of June 30, 2017 was based on the June 30, 2016 actuarial valuation.

CHANGES IN ASSUMPTIONS

There were no changes in assumptions for the June 30, 2017 actuarial valuation.

For the June 30, 2016 actuarial valuation, the following changes in assumptions were made:

- Rates of withdrawal, disability retirement, service retirement and mortality were adjusted to more closely reflect actual and anticipated experience. The analysis and basis for these changes are included in the latest Experience Investigation for the five-year period ending June 30, 2015.
- Economic assumptions (assumed rates of inflation and investment return), the actuarial cost method, and the unfunded actuarial accrued liability (UAAL) amortization methodology were changed in accordance with a Memorandum of Agreement between the State and SEBAC effective December 8, 2016.

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

CONTRIBUTIONS MADE

UMG's SERS contribution is determined by applying a State-mandated percentage to eligible salaries and wages. The mandated total fringe benefit rate, which includes allocations for retiree health care costs, rollforwards, and other adjustments, was 56.58%, 54.99% and 53.58%, during fiscal years 2018, 2017 and 2016, respectively. The SERS contributions made compared to covered payroll follows:

	Years Ended June 30		
	2018	2017	2016
Total UMG payroll covered by SERS	$ 27,090,451	$ 26,025,549	$ 25,860,367
Total UMG SERS contributions	$ 9,338,042	$ 9,552,694	$ 9,287,372
Contributions as a percentage of covered payroll	34.5%	36.7%	35.9%

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

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

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

At June 30, 2018 and 2017, UMG reported a SERS related liability of $130.5 million and $142.0 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined based on actuarial valuations performed as of June 30, 2017 and June 30, 2016 rolled forward based on plan experience. UMG's allocation of the net pension liability was based on UMG’s percentage of total overall contributions to the plan during the 2017 and 2016 fiscal years. UMG’s proportion of contributions was .62% at June 30, 2017 and 2016.

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

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

For the years ended June 30, 2018 and 2017, UMG recognized SERS pension expense of $13.3 million and $20.0 million, respectively. The pension expense is reported in UMG's financial statements as part of fringe benefits expenses.

At June 30, 2018 and 2017, UMG reported deferred outflows of resources and deferred inflows of resources related to the SERS plan from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)			
Change in proportionate allocation of pension expense	$ 12,208	$ --	$ 16,614	$ --
UMG contributions subsequent to measurement date	9,338	--	9,553	--
Net difference between projected and actual earnings on pension plan investments	--	(249)	4,453	--
Difference between expected and actual experience	3,116	--	3,945	--
Changes in assumptions	19,997	--	25,319	--
	$ 44,659	$ (249)	$ 59,884	$ --

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

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

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

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

Year ending June 30,	Change in proportionate participation in SERS plan	Net difference between projected and actual earnings on pension plan investments	Difference Between Expected and Actual Experience	Change of Assumptions
		(in thousands)		
2019	$ 4,576	$ (107)	$ 835	$ 5,360
2020	4,183	722	835	5,360
2021	2,585	97	835	5,360
2022	844	(961)	610	3,914
2023	20		1	3
Thereafter	--	--	--	--
	$ 12,208	$ (249)	$ 3,116	$ 19,997

The amortization of the aforementioned deferred inflows and deferred outflows increased fringe benefits expense by $3,978,283 and $10,454,097 during the years ended June 30, 2018 and 2017, respectively.

ACTUARIAL METHODS AND ASSUMPTIONS

The total SERS pension liability in the June 30, 2017 actuarial valuation was determined based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2016. The key actuarial assumptions are summarized below:

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

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

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

The total SERS pension liability in the June 30, 2016 actuarial valuation was determined based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2015. The key actuarial assumptions are summarized below:

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

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

DISCOUNT RATE

The discount rate used to measure the total pension liability was the long-term expected rate of return of 6.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected through the year 2136.

EXPECTED RATE OF RETURN ON INVESTMENTS

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

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

EXPECTED RATE OF RETURN ON INVESTMENTS (CONTINUED)

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

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

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

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

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
UMG's proportionate share of the net pension liability	$ 150,931,119	$ 130,509,033	$ 105,068,340

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

TEACHERS' RETIREMENT SYSTEM

UMG also has a limited number of participants in the Connecticut State Teachers' Retirement System.

As of June 30, 2018 and 2017, UMG recorded the following amounts in the financial statements related to the TRS:

	2018	2017
	(in thousands)	
Deferred outflows of resources	$ 266	$ 286
Pension liability	425	449

ALTERNATE RETIREMENT PLAN

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

All unclassified employees, not already in a pension plan, of a constituent unit of the state system of higher education and the central office staff of the Department of Higher Education, are eligible to participate in ARP. Participants must contribute 5% of eligible compensation each pay period while the State will contribute an amount equal up to 8% of the participant's eligible compensation via a charge recouped from UMG. Participant and State contributions are both 100% vested immediately. For fiscal years 2018 and 2017, UMG contributions to the ARP were approximately $7.3 million and $6.0 million, respectively. The liabilities for fiscal years 2018 and 2017 were approximately $463,000 and $361,000, respectively.

Upon separation from service, retirement, death or divorce (for alternate payee under a Qualified Domestic Relations Order), if the participant is age 55 or over and has more than 5 years of plan participation, a participant or designated beneficiary can withdraw a partial or lump cash payment, rollover to another eligible retirement plan or IRA, or receive installment payments or annuity payments. Other ARP provisions are described in Title 5 – State Employees, Chapter 66 – State Employees Retirement Act of the Connecticut General Statutes.

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

GENERAL INFORMATION ABOUT THE SEOPEBP

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

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

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

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

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

NET SEOPEBP LIABILITY

UMG's total OPEB liability of $189.2 million as of June 30, 2018 for its proportionate share of the net OPEB liability was measured as of June 30, 2017 based on an actuarial valuation that was rolled forward to June 30, 2018. UMG's proportion of the net OPEB liability was based on UMG's percentage of total overall contributions to the plan. At June 30, 2017 and 2016, UMG's proportion of contributions was 1.09%.

ACTUARIAL METHODS AND ASSUMPTIONS

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

Inflation	3.50%
Salary increases	3.25% - 19.5% varying by years of service and retirement system
Discount rate	3.68% as of June 30, 2017 and 2.96% as of June 30, 2016
Healthcare cost trend rates	
Medical	6.5% graded to 4.5% over 7 years
Prescription Drug	8.0% graded to 4.5% over 4 years
Dental and Part B	4.5%
Administrative Expense	3.0%
Retirees' share of benefit-related costs	Contributions, if required, are determined by plan, employee start date, and benefit type

The discount rate is a blend of long-term expected rate of return on OPEB Trust assets and a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher (3.58% as of June 30, 2017 and 2.85% as of June 30, 2016). The blending is based on the sufficiency of projected assets to make projected benefit payments.

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

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2016.

CONTRIBUTIONS MADE

The SEOPEBP contributions made to covered payroll follows:

	2018	2017
Total UMG payroll covered by SEOPEBP	$ 77,724,585	$ 76,698,524
Total UMG SEOPEBP contributions	$ 9,396,044	$ 7,273,818
Contributions as a percentage of covered payroll	12.09%	9.48%

CHANGES IN THE NET OPEB LIABILITY

	Net OPEB Liability *(in thousands)*
Balance at June 30, 2016	$ 187,721
Changes for the Year:	
Service cost	10,474
Interest	5,571
Changes in assumptions or other inputs	(5,567)
Benefit payments	(6,969)
Change in proportionate allocation of OPEB liability	(2,000)
Net changes	1,509
Balance at June 30, 2017	$ 189,230

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents UMG's proportionate share of net OPEB liability using the discount rate of 3.68%, as well as the proportionate share of net OPEB liability using a 1.00% increase or decrease from the current discount rate:

	1% Decrease (2.68%)	Discount Rate (3.68%)	1% Increase (4.68%)
		(in thousands)	
Net OPEB Liability	$ 219,639	$ 189,230	$ 164,592

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES

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

	Healthcare Cost Trend Rates		
	1% Decrease	Current Valuation	1% Increase
		(in thousands)	
Net OPEB Liability	$ 162,620	$ 189,230	$ 222,942

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)	
Changes in proportion	$ 163	$ --
UMG contributions subsequent to measurement date	9,396	--
Changes in assumptions or other inputs	--	4,540
Net difference between projected and actual earnings	--	214
	$ 9,559	$ 4,754

UMG contributions subsequent to the measurement date totaling $9.4 million reported as deferred outflows of resources will be recognized as a reduction of the OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in fringe benefits expense as follows:

Years ending June 30:	
2019	$ (1,044)
2020	(1,044)
2021	(1,044)
2022	(1,044)
2023	(415)
Thereafter	--
	$ (4,591)

NOTE 8 – PENSION AND OPEB PLANS (CONTINUED)

EXPECTED RATE OF RETURN ON INVESTMENTS

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

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

NOTE 9 - RELATED PARTY TRANSACTIONS

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

UMG is party to an agreement with UConn Health whereby the salaries of certain employees are reimbursed by UConn Health operations. The reimbursed expenses are accounted for as a transfer from UConn Health under the heading “Net Transfers from UConn Health”. Unrestricted assets of $24,417,990 and $21,815,556 were transferred from UConn Health in 2018 and 2017, respectively. Management of UMG and UConn Health expect that this agreement will continue in the future.

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

UConn Health also allocates working capital based on organizational need throughout the year on an as needed basis. UConn Health transferred $38,574,309 and $31,192,086 to UMG in 2018 and 2017, respectively. As a result, the total transfers from UConn Health were $62,992,299 and $53,007,642 for 2018 and 2017, respectively. During the year ended June 30, 2018, UMG received other transfers totaling $302,228 from UConn Health related to workers' compensation appropriations.

As described in note 1 and note 8, UMG participates in certain State of Connecticut retirement and fringe benefit plans. During the years ended June 30, 2018 and 2017, UMG expensed $49,764,087 and $49,478,499, respectively, for employee fringe benefits including contributions to the State employee retirement funds. Related salary costs were $85,982,460 and $85,429,059, respectively.

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

Net patient service revenues and contract and other revenues include approximately $9,411,000 and $9,678,000 in 2018 and 2017, respectively, of professional service revenues arising under contracts with UConn Health, John Dempsey Hospital, and other State agencies.

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

UMG provided faculty to UConn Health in the form of administrative leadership and other support. As a result of these efforts, UConn Health reimbursed UMG for physician salaries during the years 2018 and 2017. The amounts received totaled approximately $4,900,000 million for each year, and were recorded as contract and other revenues in the statements of revenues, expenses, and changes in net position.

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

NOTE 10 - HYPOTHECATION

In accordance with State Statute, UMG can borrow from the State up to 70% of its net patient receivables and contract and other receivables to fund operations. As of June 30, 2018 and 2017, UMG had drawn down $5,622,734 and $3,564,679, respectively. As of June 30, 2018 and 2017, UMG had available amounts of $815,913 and $4,135,985, respectively, under the State Statute.

NOTE 11 - SUBSEQUENT EVENTS

UMG has evaluated subsequent events through November 30, 2018, which represents the date the financial statements were available to be issued.

On October 22, 2018, UConn Health published a Solicitation of Interest seeking potential partners for UMG. The Solicitation of Interest represents UConn Health's effort, as mandated by the General Assembly, to seek out partners who can help strengthen UConn Health's clinical offerings while adding overall financial stability to the whole of UConn Health. Responses are expected back by December 3, 2018.

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

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Joint Audit and Compliance Committee
University of Connecticut Health Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University of Connecticut Health Center UConn Medical Group (UConn Medical Group or Company), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

Marcum LLP

Hartford, CT
November 30, 2018

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	2017
	(dollars in thousands)
Net OPEB Liability	
Service cost	$ 10,474
Interest	5,571
Changes of assumptions or other inputs	(5,567)
Benefit payments	(6,969)
Change in proportionate allocation of OPEB liability	(2,000)
Change in Net OPEB Liability	1,509
Net OPEB Liability - Beginning	187,721
Net OPEB Liability - Ending	$ 189,230
Covered-Employee Payroll	$ 76,699
Total OPEB Liability as a Percentage of Covered-Employee Payroll	246.72%

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016
	(dollars in thousands)	
UMG's proportion of the net OPEB liability	1.09%	1.09%
UMG's proportionate share of the net OPEB liability	$ 189,230	$ 187,721
UMG's covered-employee payroll	$ 76,699	$ 79,921
UMG's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	246.72%	234.88%
Plan fiduciary net position as a percentage of the total OPEB liability	3.03%	1.94%

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF UMG'S OPEB CONTRIBUTIONS

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

CHANGES OF BENEFIT TERMS

In the June 30, 2017 actuarial valuation, there was no change of benefit terms.

CHANGES OF ASSUMPTIONS

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

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