

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

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

JUNE 30, 2023 AND 2022

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

CONTENTS

Management’s Discussion and Analysis	1-11
Independent Auditors’ Report.....	12-14
Financial Statements	
Statements of Net Position.....	15-16
Statements of Revenues, Expenses, and Changes in Net Position	17
Statements of Cash Flows.....	18-19
Notes to Financial Statements.....	20-59
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	60-61
Schedules of Required Supplementary Information	62-69

**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 fiscal years ended June 30, 2023, 2022, and 2021. 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 support its operations. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which both follow this section.

UMG's clinical operations are modeled, in part, on private group practices and include approximately 550 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. UMG also partners closely with John Dempsey Hospital (JDH), with many providers performing procedures in its facilities.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. Since then, COVID-19 and its variants have continued to spread throughout the United States and the world. The COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings of businesses across the country. Since fiscal year 2021, UConn Health has diligently navigated a path back to providing full services in a changed world. The federal COVID-19 Public Health Emergency declaration ended on May 11, 2023. We continue to monitor the pandemic and its many associated business challenges including variant waves, supply chain disruption, worker shortages, and aid application and reporting requirements. Management remains focused on providing exceptional, reliable, and safe patient care to our community.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT’S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

UMG has received aid from a number of governmental and other sources throughout the pandemic. Notably, UMG received federal funding via the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Funds received under this program carry reporting and other requirements outlined by the federal government, which began September 30, 2021. UMG believes it has met these requirements. A summary of significant amounts received is shown below:

	2023	2022	2021
Funding Source			
Coronavirus Aid, Relief, and Economic Security (CARES) Act	\$ -	\$ 5,216,087	\$ 2,012,523
Rent relief	-	-	1,000,000
Other funding	-	711,851	33,227
Total COVID-19 relief revenue	\$ -	\$ 5,927,938	\$ 3,045,750

Funding received came from both general and targeted distributions. Targeted distributions were made to physician practices based on, among other metrics, the total number of COVID-19 positive patients treated. UMG was also eligible for distributions for treating uninsured patients, though this population is not considered material.

UMG, as part of UConn Health, was eligible to apply for reimbursement of expenses under two additional funding mechanisms: the Federal Emergency Management Agency (FEMA), and the Coronavirus Relief Fund (CRF). UConn Health was eligible to submit expenses incurred in responding to the public health emergency to FEMA for consideration. The State of Connecticut also created a mechanism for expense submittal through December 31, 2021, to the extent such expenses were not submitted to other funding sources (such as FEMA).

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, statements of cash flows, and related notes to the financial statements) present the financial position of UMG at June 30, 2023 and 2022, and the results of its operations and financial activities for the fiscal years then ended. These financial statements report information about UMG using accounting methods similar to those used by private-sector companies. The statements of net position include all of UMG’s assets, liabilities and deferred outflows and inflows. 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).

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

FINANCIAL HIGHLIGHTS

UMG's financial position at June 30, 2023, consisted of assets of approximately \$125.7 million, deferred outflows of approximately \$154.0 million, liabilities of approximately \$526.5 million (of which \$405.7 million is related to GASB Statements No. 68 and 75, \$94.7 million is related to GASB Statement No. 87 and \$3.4 million is related to GASB Statement No. 96), and deferred inflows of approximately \$159.9 million. UMG's financial position at June 30, 2022, consisted of assets of approximately \$134.3 million, deferred outflows of approximately \$183.5 million, liabilities of approximately \$664.5 million (of which \$519.2 million is related to GASB Statements No. 68 and 75, and \$104.3 million is related to GASB Statement No. 87), and deferred inflows of approximately \$89.6 million. Net position, which represents the residual interest in UMG's assets and deferred outflows after liabilities and deferred inflows are deducted, increased by approximately \$29.6 million from fiscal year 2022 to a net deficit position of approximately \$406.8 million as of June 30, 2023.

UMG finished the fiscal year with an operating loss of \$109.2 million compared to an operating loss of \$149.6 million in the prior fiscal year. Current year losses include the effect of UMG recording its pro-rata share of expenses under GASB Statements No. 68 and 75, as discussed in note 11. These expenses reflect changes to the pension and other post-employment benefits (OPEB) plans on a State level. UMG recorded a decrease of \$13.6 million and an increase of \$36.5 million of expenses related to pension and OPEB liabilities in fiscal years 2023 and 2022, respectively. Operating losses exclusive of these entries were \$122.8 million and \$113.1 million in fiscal years 2023 and 2022, respectively.

UMG received net transfers from UConn Health of \$143.4 million and \$103.7 million in fiscal years 2023 and 2022, respectively. Current year transfers included \$112.5 million from UConn Health as working capital support and \$30.9 million related to fringe benefit support. Prior year transfers included \$63.3 million from UConn Health related to working capital support and \$40.4 million of fringe benefit support. Total net position increased by approximately \$29.6 million in fiscal year 2023, compared to a decrease of approximately \$44.4 million in fiscal year 2022.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF ASSETS AND LIABILITIES

Summarized components of UMG's Statements of Net Position as of June 30, 2023, 2022, and 2021 are presented below:

	2023	2022 (Restated)	2021
	<i>(amounts in thousands)</i>		
Summary of assets, liabilities, and net position at June 30:			
Current assets	\$ 19,508	\$ 21,875	\$ 20,151
Lease receivable, net of current portion	29	78	15
Right-to-use assets, net	91,406	99,918	103,374
Capital and intangible assets, net	14,756	12,428	12,798
Total assets	\$ 125,699	\$ 134,299	\$ 136,338
Deferred outflows for pensions	\$ 81,124	\$ 84,136	\$ 79,428
Deferred outflows for OPEB	72,846	99,382	118,197
Total deferred outflows	\$ 153,970	\$ 183,518	\$ 197,625
Current liabilities	\$ 23,871	\$ 42,626	\$ 33,842
Noncurrent liabilities	502,624	621,901	676,891
Total liabilities	\$ 526,495	\$ 664,527	\$ 710,733
Deferred amount for right-to-use assets	\$ 79	\$ 130	\$ 67
Deferred amount for pensions	48,683	15,953	63
Deferred amount for OPEB	111,162	73,515	15,005
Total deferred inflows	\$ 159,924	\$ 89,598	\$ 15,135
Net investment in capital assets	\$ 7,996	\$ 8,072	\$ 10,865
Unrestricted deficit	(414,746)	(444,380)	(402,770)
Total net position	\$ (406,750)	\$ (436,308)	\$ (391,905)

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS – ASSETS AND LIABILITIES

Changes in assets included the following:

- *Due from other funds* – decreased by approximately \$700,000 from June 30, 2022 to June 30, 2023. Prior year amounts due related to Covid revenues were received and no new funding allocations were made in the current year.
- *Due from State of Connecticut* – decreased by approximately \$5.1 million from June 30, 2022 to June 30, 2023 due to a legislative change where the State is paying the retirement fringe of employees directly to the pension plan rather than charging UConn Health and UMG.
- *Right-to-use assets, net* – decreased by approximately \$8.5 million from June 30, 2022 to June 30, 2023 due to amortization of lease and subscription balances recorded under GASB 87 and GASB 96.

Changes in liabilities included the following:

- *Accrued payroll* – decreased by approximately \$6.9 million from June 30, 2022 to June 30, 2023. The payroll accrual is based on the number of remaining days in the fiscal year after the last payroll period is processed, as well as aggregate staffing and salary levels. The final payroll of the current year posted on June 30 resulting in a lower number of outstanding days at year end.
- *Due to State of Connecticut* – decreased by approximately \$5.7 million from June 30, 2022 to June 30, 2023. This amount represents the portion of fringe benefits related to accrued salaries owed to the State at the end of the fiscal year.
- *Due to John Dempsey Hospital (JDH)* – increased by approximately \$2.9 million from June 30, 2022 to June 30, 2023. The 2023 balance primarily consisted of patient deposits posted to a central clearing account for UMG that were owed back to JDH at year-end.
- *Pension and OPEB liabilities* – decreased by \$113.6 million from June 30, 2022 to June 30, 2023 due to changes in UMG's OPEB and pension costs. This represents UMG's proportional share of the State's liability as actuarially determined based on UMG's percentage of overall contributions.
- *Right-to-use liabilities, net of current portion* – decreased by approximately \$5.8 million from June 30, 2022 to June 30, 2023 due to UMG making contractually required lease payments in the current fiscal year.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Summarized components of UMG's Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2023, 2022, and 2021 are presented below:

	<u>2023</u>	<u>2022</u> <u>(Restated)</u>	<u>2021</u>
	<i>(amounts in thousands)</i>		
Summary of revenues, expenses and transfers for the year ended June 30:			
Operating revenues	\$ 138,211	\$ 140,771	\$ 137,009
Operating expenses	<u>247,369</u>	<u>290,385</u>	<u>299,695</u>
Loss from operations	(109,158)	(149,614)	(162,686)
Nonoperating revenues (expenses), net	<u>(4,636)</u>	<u>1,470</u>	<u>(2,729)</u>
Net loss	(113,794)	(148,144)	(165,415)
Transfers, net	143,352	103,738	101,034
Cumulative effect of change in accounting method GASB 87 and cumulative effect of implementing GASB 96	<u>-</u>	<u>3</u>	<u>(20)</u>
Increase(Decrease) in net position	<u>\$ 29,558</u>	<u>\$ (44,403)</u>	<u>\$ (64,401)</u>

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

Operating revenues

Total operating revenues decreased from the fiscal year ended June 30, 2022 to the fiscal year ended June 30, 2023 by approximately \$2.5 million or 1.8%.

- *Net patient service revenues* – increased by approximately \$5.8 million or 4.7% from the prior year due to increased patient visits post Covid.
- *Contract and other revenues* – decreased by approximately \$8.3 million or 49.0% from the prior year due to discontinuation of the Anesthesia revenue agreement with Integrated Anesthesia Associates, LLC (IAA).

Operating expenses

Total operating expenses decreased from the fiscal year ended June 30, 2022 to the fiscal year ended June 30, 2023 by approximately \$43.0 million or 14.8%.

- *Salaries and wages* – increased by approximately \$4.8 million or 3.7% from the prior year primarily due to increases in the number of providers and contractually bargained salary wage increases.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

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

Operating expenses (Continued)

- *Fringe benefits* – decreased by approximately \$49.9 million or 44.1% from the prior year due to a decline in UMG's proportionate share of pension and OPEB expenses. Total pension and OPEB expenses were approximately \$36.5 million in fiscal year 2022 and a reduction of \$13.6 million in fiscal year 2023. Additionally, a legislative change removing responsibility for payment of certain retirement fringe costs from UMG beyond June 30, 2023, reduced UMG's accrued fringe benefit expenses as of June 30, 2023.
- *Medical contractual support* – decreased by approximately \$1.3 million or 45.3% from the prior year, primarily driven by the discontinuation of UMG anesthesia contract. UMG retained physician services for anesthesia while other personnel under the contract moved to JDH in FY23.
- *Depreciation and Amortization* – increased by \$2.2 million or 23.9% from the prior year, primarily driven by computer software amortization costs.

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 fiscal years ended June 30, 2023, 2022 and 2021 are as follows:

	<u>2023</u>	<u>2022 (Restated)</u>	<u>2021</u>
	<i>(amounts in thousands)</i>		
Cash received from operations	\$ 140,427	\$ 140,599	\$ 131,306
Cash expended for operations	<u>(255,621)</u>	<u>(242,006)</u>	<u>(232,171)</u>
Net cash used in operations	(115,194)	(101,407)	(100,865)
Net cash used in investing activities	(5,461)	(7,345)	(482)
Net cash provided by noncapital financing activities	133,675	114,461	107,929
Net cash used in capital and related financing activities	<u>(10,748)</u>	<u>(5,709)</u>	<u>(9,566)</u>
Net change in cash	2,272	-	(2,984)
Cash - Beginning	<u>-</u>	<u>-</u>	<u>2,984</u>
Cash - Ending	<u>\$ 2,272</u>	<u>\$ -</u>	<u>\$ -</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

OPERATIONAL HIGHLIGHTS

UMG patient visits of approximately 850,000 represent an increase of approximately 48,000 from 2022. Demand for services now surpasses pre-COVID levels and continues to grow.

CAPITAL AND INTANGIBLE ASSETS

At June 30, 2023, UMG had capital and intangible assets of \$156.4 million before accumulated depreciation, compared to \$151.8 million at June 30, 2022. Construction in progress (CIP) increased by approximately \$213,000 from June 30, 2022 to June 30, 2023, due to UMG's ongoing projects. Equipment increased by approximately \$687,000 due to the acquisition of ultrasounds, tomography, and equipment for the Hopmeadow Street practice. A summary of capital and intangible asset balances is shown in the table below:

	<u>2023</u>	<u>2022</u> <u>(Restated)</u>	<u>2021</u>
	<i>(amounts in thousands)</i>		
Land	\$ 89	\$ 89	\$ 89
Construction in progress (estimated costs to complete of \$5 million and \$4.3 million at June 30, 2023 and 2022, respectively)	1,369	1,156	271
Buildings and leasehold improvements	15,822	12,689	12,560
Equipment	8,723	8,037	9,155
Computer software	13,931	13,706	13,544
Total capital and intangible assets	<u>39,934</u>	<u>35,677</u>	<u>35,619</u>
Less: accumulated amortization	<u>25,178</u>	<u>23,249</u>	<u>22,821</u>
Capital and intangible assets, net	<u>\$ 14,756</u>	<u>\$ 12,428</u>	<u>\$ 12,798</u>

	<u>2023</u>	<u>2022</u> <u>(Restated)</u>	<u>2021</u>
	<i>(amounts in thousands)</i>		
Right-to-use assets - buildings	\$ 110,290	\$ 110,625	\$ 110,123
Right-to-use assets - equipment	682	534	305
Right-to-use assets - subscriptions	5,476	4,942	-
Total right-to-use assets	<u>116,448</u>	<u>116,101</u>	<u>110,428</u>
Less: accumulated amortization	<u>25,042</u>	<u>16,183</u>	<u>7,054</u>
Right-to-use assets, net	<u>\$ 91,406</u>	<u>\$ 99,918</u>	<u>\$ 103,374</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

CAPITAL AND INTANGIBLE ASSETS (CONTINUED)

For fiscal year 2024, all UConn Health capital requests will be considered for funding on an individual basis. Capital requests will be considered by UConn Health's Capital Prioritization Committee. More detailed information about UMG's capital and intangible assets are presented in note 9 to the financial statements.

UNIVERSITY OF CONNECTICUT HEALTH CENTER UCONN MEDICAL GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL 2024 OUTLOOK

As we look forward to fiscal year 2024, UConn Health faces unique challenges as the world moves beyond the COVID pandemic. UConn Health, like other providers, is grappling with the impact of delayed care, increase in demand for services, staffing scarcity, and inflationary pressures. These challenges are on top of existing supply chain and emerging public health threats which providers have dealt with over the past several years. In addition, political focus is shifting towards decreasing healthcare spending at a time when providers are increasingly vulnerable financially. At the same time, an increasing focus on health equity and minimizing the impacts of health disparities in the general population puts additional focus on our ability to fulfill community need. UConn Health is working diligently to stay abreast of changing clinical and business models as it navigates these changing operational, social, and regulatory landscapes.

UConn Health continues to adapt to changing healthcare environments including labor and supply shortages, funding challenges, and increased demand through continual re-prioritization, forward thinking, teamwork, and creativity. Continued and evolving public health challenges including a focus on diversity and equity require new methodologies, partnerships, and treatment options. We remain committed to responding to these needs to serve the people of Connecticut. UConn Health continues to evaluate partnerships with other State agencies and entities to bring additional tools and options to the public.

Research, education, and patient care remain the cornerstones of UConn Health's mission. These pillars remain as fundamental and relevant as ever. UConn Health is focused on maximizing our efforts in these areas, while navigating uncertainty surrounding both State and Federal funding. Federal and State aid are vital in shepherding public institutions through the many current challenges they face. This aid allows us to maintain access to a breadth of services and clinical specialties that might not otherwise be possible. Such aid also allows UConn Health to continue its public mission of protecting and serving the socially or economically disadvantaged. UConn Health benefitted from federal CARES Act support during the pandemic and continues to benefit from the allocation of American Rescue Plan Act (ARPA) funds from the State of Connecticut.

A combination of institution-wide financial initiatives and additional State funding allowed UConn Health to balance its 2023 spending plan. The new biennium brings its own challenges. As State and Federal government seek to put the pandemic behind them, funding is at the forefront of new concerns. Public sentiment towards healthcare and education has eroded as the focus shifts to affordability, government sustainability, and tax relief.

Clinical volumes have rebounded in most specialties and clinical volumes now often exceed pre-pandemic volumes straining delivery mechanisms that saw significant staffing departures over the past year. Competition for doctors, nurses, and other clinical specialties is intense. Wage and general inflation remain an issue as it continues to outpace payment increases. Supply shortages and inflation provide additional operational challenges. The global supply chain continues to work towards stabilization. Ports, rail transit, and trucking have stabilized but remain short of their prior reliability requiring UConn Health to constantly re-evaluate stocking methodologies in hopes of minimizing operational disruptions.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL 2024 OUTLOOK (CONTINUED)

CONTACTING UCONN MEDICAL GROUP'S FINANCIAL MANAGEMENT

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



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of The University of Connecticut Health Center UConn Medical Group (UMG), a component unit of the State of Connecticut, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise UMG's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of Connecticut Health Center UConn Medical Group as of June 30, 2023 and 2022, and the respective changes in net position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The University of Connecticut Health Center UConn Medical Group and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Notes 9 and 10 to the financial statements, effective July 1, 2022, UMG adopted new accounting guidance for subscription-based technology agreements. The guidance requires entities to recognize a subscription-based right-to-use asset and corresponding subscription-based. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the UMG's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The University of Connecticut Health Center UConn Medical Group's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The University of Connecticut Health Center UConn Medical Group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management’s discussion and analysis, the schedule of changes in UMG’s net position liability and related ratios, the schedule of pension contributions, the schedule of changes in UMG’s net OPEB liability and related ratios, the schedule of UMG’s proportionate share of the net OPEB liability, and the schedule of UMG’s OPEB contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2023, on our consideration of The University of Connecticut Health Center 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 UMG’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 UMG’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

West Hartford, Connecticut

November 21, 2023

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

STATEMENTS OF NET POSITION

JUNE 30, 2023 AND 2022

	2023	2022 (Restated)
Assets		
Current Assets		
Cash	\$ 2,271,875	\$ -
Patient accounts receivable, net of estimated uncollectibles of \$4,844,729 and \$6,851,293 at June 30, 2023 and 2022, respectively	9,035,644	8,576,272
Inventory	1,268,655	982,798
Contract and other receivables (note 6)	6,653,689	6,202,346
Lease receivable, current (note 4)	49,563	55,675
Due from other funds	21,536	711,851
Due from State of Connecticut	178,409	5,318,791
Prepaid expenses	28,409	27,582
Total Current Assets	19,507,780	21,875,315
Noncurrent Assets		
Lease receivable, net of current portion (note 4)	28,912	78,475
Right-to-use assets, net (note 9)	91,405,851	99,918,002
Capital and intangible assets, net (note 9)	14,756,166	12,427,735
Total Noncurrent Assets	106,190,929	112,424,212
Total Assets	125,698,709	134,299,527
Deferred Outflows of Resources		
Deferred amount for pensions (note 11)	81,123,747	84,136,265
Deferred amount for OPEB (note 11)	72,845,763	99,381,835
Total Deferred Outflows of Resources	\$ 153,969,510	\$ 183,518,100

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, 2023 AND 2022

	<u>2023</u>	<u>2022 (Restated)</u>
Liabilities and Net Position		
Current Liabilities		
Cash overdraft	\$ -	\$ 9,677,060
Accounts payable and accrued expenses	2,810,102	2,689,893
Accrued payroll	5,356,403	12,229,265
Due to State of Connecticut	1,215,491	6,956,254
Due to UConn Health Malpractice Fund (note 1)	35,587	12,539
Due to John Dempsey Hospital (note 12)	3,244,811	306,193
Due to Finance Corporation	617,544	545,517
Due to Central Administrative Services	25,558	-
Right-to-use liabilities, current portion (note 10)	6,408,427	6,685,690
Accrued compensated absences, current portion (note 10)	4,156,967	3,523,666
Total Current Liabilities	<u>23,870,890</u>	<u>42,626,077</u>
Noncurrent Liabilities		
Pension liabilities (note 11)	164,828,924	218,638,387
OPEB liabilities (note 11)	240,823,701	300,576,329
Right-to-use liabilities (note 10)	91,757,766	97,588,613
Accrued compensated absences, net of current portion (note 10)	5,214,014	5,097,978
Total Noncurrent Liabilities	<u>502,624,405</u>	<u>621,901,307</u>
Total Liabilities	<u>526,495,295</u>	<u>664,527,384</u>
Deferred Inflows of Resources		
Deferred amount for right-to-use assets	78,475	130,149
Deferred amount for pensions (note 11)	48,683,395	15,953,643
Deferred amount for OPEB (note 11)	111,161,777	73,514,677
Total Deferred Inflows of Resources	<u>159,923,647</u>	<u>89,598,469</u>
Net Position		
Net investment in capital assets	7,995,824	8,071,434
Unrestricted deficit	(414,746,547)	(444,379,660)
Total Net Position	<u>\$ (406,750,723)</u>	<u>\$ (436,308,226)</u>

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, 2023 AND 2022

	<u>2023</u>	<u>2022 (Restated)</u>
Operating Revenues		
Net patient service revenues (note 3)	\$ 129,557,250	\$ 123,774,850
Contract and other revenues	<u>8,653,886</u>	<u>16,995,950</u>
Total Operating Revenues	<u>138,211,136</u>	<u>140,770,800</u>
Operating Expenses		
Salaries and wages	135,717,462	130,876,360
Fringe benefits	63,221,400	113,137,637
Medical contractual support	1,516,192	2,771,047
Internal contractual support	1,535,001	1,886,549
Outside agency per diems	1,253,309	1,311,871
Depreciation (note 9)	2,199,920	2,039,412
Amortization (note 9)	9,451,484	9,129,022
Pharmaceutical/medical supplies	9,799,148	8,745,742
Utilities	2,454,222	2,418,891
Outside and other purchased services	14,595,619	12,271,311
Insurance	554,018	523,463
Repairs and maintenance	3,531,272	3,577,296
Other expenses	<u>1,539,875</u>	<u>1,696,770</u>
Total Operating Expenses	<u>247,368,922</u>	<u>290,385,371</u>
Operating Loss	<u>(109,157,786)</u>	<u>(149,614,571)</u>
Nonoperating Revenues (Expenses)		
COVID-19 relief revenue	-	5,927,938
Interest expense	(4,691,605)	(4,509,918)
Interest income	3,938	1,409
Lease revenue	51,675	52,877
Loss on disposals (note 9)	<u>(960)</u>	<u>(2,843)</u>
Net Nonoperating Revenues (Expenses)	<u>(4,636,952)</u>	<u>1,469,463</u>
Loss before Transfers	(113,794,738)	(148,145,108)
Net Transfers from UConn		
Health - Unrestricted (note 12)	<u>143,352,241</u>	<u>103,738,133</u>
Increase(Decrease) in Net Position	<u>29,557,503</u>	<u>(44,406,975)</u>
Net Position - Beginning of year (as restated)	(436,308,226)	(391,904,414)
Cumulative effect of change in Accounting method GASB 87	-	3,163
Net Position - Beginning of year	<u>(436,308,226)</u>	<u>(391,901,251)</u>
Net Position - End of year	<u>\$ (406,750,723)</u>	<u>\$ (436,308,226)</u>

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, 2023 AND 2022

	<u>2023</u>	<u>2022</u> <u>(Restated)</u>
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 129,097,878	\$ 124,301,288
Cash received from contract and other revenues	8,202,543	16,297,533
Cash (returned to) received from related parties	3,126,137	(1,954,832)
Cash paid to employees for personal services and fringe benefits	(218,699,036)	(204,459,424)
Cash paid for other than personnel services	(36,922,083)	(35,591,030)
Net Cash Used in Operating Activities	<u>(115,194,561)</u>	<u>(101,406,465)</u>
Cash Flows from Investing Activities		
Additions to property and equipment	(5,460,705)	(7,344,964)
Net Cash Used in Investing Activities	<u>(5,460,705)</u>	<u>(7,344,964)</u>
Cash Flows from Noncapital Financing Activities		
Net transfers from UConn Health's unrestricted net assets to support operations	143,352,241	103,738,133
Net borrowings/(repayments) on cash overdraft	(9,677,060)	4,794,555
COVID-19 relief received	-	5,927,938
Net Cash Provided by Noncapital Financing Activities	<u>133,675,181</u>	<u>114,460,626</u>
Cash Flows from Capital and Related Financing Activities		
Lease revenue	51,675	52,877
Interest paid	(4,691,605)	(4,729,641)
Payments on right-to-use liabilities	(6,108,110)	(1,032,433)
Net Cash Used in Capital and Related Financing Activities	<u>(10,748,040)</u>	<u>(5,709,197)</u>
Net Change in Cash	2,271,875	-
Cash - Beginning	<u>-</u>	<u>-</u>
Cash - Ending	<u>\$ 2,271,875</u>	<u>\$ -</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Non cash portion of interest for right-to-use assets	\$ -	\$ 8,665
Right-to-use assets acquired by entering into subscription	\$ 243,864	\$ -
Right-to-use assets acquired by entering into lease agreements	\$ 534,075	\$ 317,272

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, 2023 AND 2022

	<u>2023</u>	<u>2022 (Restated)</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (109,157,786)	\$ (149,614,571)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	11,651,404	11,168,434
Changes in operating assets and liabilities:		
Patient accounts receivable	(459,372)	526,438
Inventory	(285,857)	(96,097)
Contract and other receivables	(451,343)	(698,417)
Prepaid expenses	(827)	(8,918)
Deferred outflows - pension	(8,475,150)	(10,219,439)
Deferred outflows - OPEB	17,489,773	17,198,993
Accounts payable and accrued expenses	120,209	(283,075)
Due to Central Administrative Services	25,558	(1,373,722)
Due to JDH	2,938,618	(1,747,486)
Due to Finance Corporation	72,027	785,166
Due to State of Connecticut	(5,740,763)	2,066,522
Due to/from other funds	690,315	631,077
Due from State of Connecticut	5,140,382	(2,316,389)
Accrued payroll	(6,872,862)	4,164,983
Accrued compensated absences	749,337	(1,069,616)
Due to Malpractice	23,048	-
Change in net pension liability	(5,827,771)	22,528,765
Change in deferred inflows - pension	(3,764,272)	(719,732)
Change in net OPEB liability	6,509,327	12,987,763
Change in deferred inflows - OPEB	<u>(19,568,556)</u>	<u>(5,317,144)</u>
Net Cash Used in Operating Activities	<u>\$ (115,194,561)</u>	<u>\$ (101,406,465)</u>

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

REPORTING ENTITY

The University of Connecticut Health Center UConn Medical Group (UConn Medical Group or UMG) clinical operations are modeled, in part, on private group practices and include approximately 550 providers practicing in a wide variety of specialties.

The financial statements include those assets, deferred outflows, liabilities, deferred inflows, net position, 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 support its 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 12 for related party transactions.

UMG, as part of UConn Health, is a component of the State and is, therefore, exempt from federal income taxes under Section 115 of the Internal Revenue Code of 1986.

COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. Since then, COVID-19 and its variants have continued to spread throughout the United States and the world. The COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings of businesses across the country. Since fiscal year 2021, UConn Health has diligently navigated a path back to providing full services in a changed world. The federal COVID-19 Public Health Emergency (PHE) declaration ended on May 11, 2023. UConn Health continues to monitor the pandemic and its many associated business challenges including variant waves, supply chain disruption, worker shortages, and aid application and reporting requirements. Management remains focused on providing exceptional, reliable, and safe patient care to our community.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

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, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial statement areas where management applies the use of estimates consist primarily of the allowance for uncollectible accounts, contractual allowances, compensated absences, pension and OPEB liabilities, lease liabilities, subscription liabilities, and malpractice.

CASH AND CASH OVERDRAFT

Cash balances are included in a pooled cash account with the cash balances of the other entities included in fund 12018. 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 5 for discussion regarding UMG's available borrowing.

ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUES

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

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

CONTRACT AND OTHER REVENUES

Contract and other revenues include services provided to area hospitals under various contractual agreements and certain agreements with outside providers. Revenue is recorded on the accrual basis of accounting in the period the related services are rendered.

INVENTORY

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

CAPITAL ASSETS

Property and equipment acquisitions are recorded at cost. Betterments and major renewals are capitalized, and maintenance and repairs are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings (and related improvements) have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years.

For projects, including the development of computer software and the initial implementation stage of underlying assets related to subscription-based information technology arrangements, construction in progress is capitalized as costs are incurred during the construction phase. Depreciation will begin once the assets are placed in service.

LEASES

UMG routinely engages in lease agreements to meet operational needs. UMG's lease contracts generally relate to buildings and associated facilities, such as parking, various machinery, and equipment. For short-term leases with a maximum possible term of 12 months or less at commencement, UMG recognizes period revenue or expense based on the provisions of the lease contract. For all other contracts where UMG is the lessee, UMG recognizes a lease liability and an intangible right-to-use (RTU) lease asset based on the present value of future lease payments over the contracted term of the lease. RTU lease assets are amortized over the term of the lease, as UMG is not expected to lease assets beyond the underlying asset's useful life. On a more limited basis, UMG serves as a lessor providing leases of buildings. The financial statements recognize the lease receivable and a deferred inflow of resources, based on the present value of the future lease payments expected to be received during the contracted lease term, and the deferred inflow of resources is amortized evenly over the life of the lease.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

LEASES (CONTINUED)

UMG uses an estimated incremental borrowing rate as the discount rate for leases unless the rate the lessor charges is known. The incremental borrowing rate is based on the weighted-average interest rate of outstanding debt and capital lease obligations. If amendments or other certain circumstances occur that are expected to significantly affect the amount of the lease, the present value is remeasured, and corresponding adjustments made. Many lease contracts include increases to rent payments related to the consumer price index (CPI) or similar indexes, and the available index increase is included in the present value at the commencement of the lease or upon remeasurement. Payments based on future performance are not included in the measurement of the lease liability or lease receivable but are recognized as revenue or expenses in the period performed. Residual value guarantees and exercise options will be included in the measurement if they are reasonably certain to be paid or exercised.

In addition, UMG has entered various subscription-based information technology arrangements to support its service. Information on the types of arrangements entered into and their financial impact on UMG can be found in Note 10.

INTANGIBLE ASSETS

Intangible assets consist of capitalized computer software costs, including software internally developed, that do not meet the definition of subscription-based information technology agreements. 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 stage, or post-implementation stage, and the nature of the costs. Computer software costs are amortized on a straight-line basis over their expected useful lives, which range from 3 to 10 years. Capitalized computer software costs are included with capital and intangible assets on the statements of net position. See note 9 for the gross costs capitalized and the accumulated amortization of capitalized computer costs.

IMPAIRMENT OF LONG-LIVED ASSETS

UMG records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

During 2023, UMG disposed of information technology and general equipment totaling approximately \$272,000. These assets were reported in equipment in note 9. The total loss on disposal related to these assets was approximately \$1,000. During 2022, UMG disposed approximately \$1.5 million of equipment. The loss on disposal related to these assets was approximately \$3,000.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

UMG has recorded and disclosed pensions in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as amended by GASB Statement No. 82 (collectively referred to herein as GASB 68). GASB 68 requires the pro-rata share of the State's pension liabilities be recorded at the entity level. UMG has historically paid into the 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. Beginning in fiscal year 2024, the State transferred responsibility for fringe benefit expenses from UConn Health to the Office of the State Comptroller. Under this legislation, the State Comptroller will pay retirement related fringe costs for all constituent units including UConn and the Connecticut State Colleges and Universities. The change will impact how UConn Health records pension and OPEB liabilities in subsequent reporting periods. The impact of this change is still being evaluated.

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.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

(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 recorded its pro-rata share of the OPEB liability held at the State level in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB 75). UMG pays its portion of the State of Connecticut's 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 note 11 for additional details.

PENSION LIABILITIES

UMG records its proportionate share of the collective net pension liability and collective pension expense for each defined benefit plan offered to its employees. The pro-rata share of pension liability is calculated based on the percentage of contributions to the plan in the valuation year. 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 benefit payments that are attributable to past periods of plan member service. Information about the fiduciary net position and additions to/deductions from each pension plan's fiduciary net position has been determined on the same basis as they are reported by each pension plan. For this purpose, plan member contributions are recognized in the period in which the contributions are due. UMG 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 pension liability for the fiscal years ended June 30, 2023 and 2022.

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. UMG 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 for the fiscal years ended June 30, 2023 and 2022.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows of resources are defined as the consumption of net assets in one period that are applicable to future periods and will not be recognized as an outflow of resources (expense) until then. These amounts are reported in the statement of net position in a separate section, after total assets. UMG has two items that meet this criterion, pension deferrals and OPEB deferrals.

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

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. Since adoption of GASB 68, certain fringe benefit costs associated with compensated absences were included in the pension liability and excluded from the compensated absences accrual in the accompanying statements of net position. All other compensated absences are accrued at 100% of their balance. Compensated absences in the accompanying statements of net position have been allocated between current and noncurrent liabilities based on historical experience.

THIRD-PARTY PAYORS

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

MEDICAL MALPRACTICE

The physicians, health care providers, and support staff of UMG are fully protected by State Statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity).

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

MEDICAL MALPRACTICE (CONTINUED)

Any claims paid for actions brought against the State as permitted by waiver of statutory immunity are charged against UConn Health's malpractice self-insurance fund. UConn Health allocates an annual malpractice premium to UMG, designed to reflect an estimate for the current year's cash claims to be processed. Annual premiums were \$289,000 and \$150,000 for fiscal years ended June 30, 2023 and 2022, respectively. These premiums are included in insurance expense in UMG's statements of revenues, expenses, and changes in net position. The due to UConn Health Malpractice Fund reported on the statements of net position represents premiums payable for occurrence-based coverage through June 30, 2023 and 2022, respectively.

NET POSITION

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

DUE TO AND FROM STATE OF CONNECTICUT

The 2023 Due from State of Connecticut reported on the statements of net position includes a receivable from the State for certain defined contribution retirement plans. Effective July 1, 2023, the State has transferred responsibility for payment of retirement fringe benefit costs from UConn Health and its related entities to the Comptroller. As such, year-end amounts accrued related to UMG's Alternate Retirement Program (ARP) have been offset with a corresponding receivable as the State is expected to provide the funding. The prior year Due from State of Connecticut reported on the statements of net position represented a receivable from the General Fund of the State (General Fund) for certain salaries that were able to be charged to the General Fund. UMG also recorded the related revenues on the statements of revenues, expenses, and changes in net position.

The State also administers certain non-retirement employee benefits and is responsible for payroll and other taxes. The State then charges the UMG for its portion of these costs. Due to State of Connecticut reported on the statements of net position represents the respective UMG borne fringe benefit costs owed at the end of the fiscal year related to accrued salaries.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

SUBSEQUENT EVENTS

In preparing these financial statements, UMG evaluated events and transactions for potential recognition or disclosure through November 21, 2023, the date the financial statements were available to be issued. No subsequent events requiring recognition or disclosure in the financial statements were identified.

NOTE 2 – RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

The following GASB accounting pronouncements were adopted during fiscal year 2023: Paragraphs 11 through 32 of GASB Statement No. 99, Omnibus 2022 (GASB 99); GASB Statement No. 91, Conduit Debt Obligations (GASB 91); GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (GASB 94); GASB Statement No. 96, Subscription-Based Information Technology Arrangements (GASB 96); and GASB Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62 (GASB 100). Additional information on the impact of the implementation of GASB 96 is included below. The adoption of other accounting pronouncements did not have a material impact on the financial statements.

In May 2020, the Governmental Accounting Standards Board issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard requires the recognition of subscription assets and liabilities that were previously accounted for as inflows of resources and outflows of resources recognized based on the payment provisions of the related agreement. Under this standard, the end user is required to recognize a subscription liability and an intangible right-to-use asset.

UMG adopted the requirements of the guidance effective July 1, 2022 and has applied the provisions of this standard to the beginning of the earliest comparative period presented.

Additionally, while preparing for the implementation of GASB No. 96, a change in software vendors was made to accommodate current and future needs of tracking and accounting for both leases (GASB No 87) and subscription-based information technology arrangements (GASB No 96). During the implementation of the new software, differences in methodology used for calculating right-to-use assets and liabilities were noted. As a result, we have restated our prior year statements for comparative purposes.

The impact for select accounts of adopting GASB Statement No. 96 as well as the accounting change for right-to-use assets and liabilities on the statements of net position and statements of revenues, expenses and changes in net position as of June 30, 2022 is below:

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT (CONTINUED)

Combined Statement of Net Position	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Current Assets			
Lease receivable, current	\$ 15,220	\$ 40,455	\$ 55,675
Accrued interest receivable - leases	42	(42)	-
Noncurrent Assets			
Right-to-use assets, net	96,324,293	3,593,710	99,918,003
Lease receivable, net of current portion	-	78,475	78,475
Current Liabilities			
Accrued interest payable - leases	211,188	(210,858)	330
Right-to-use liability, current portion	5,715,438	970,252	6,685,690
Noncurrent Liabilities			
Right-to-use liability, net of current portion	94,475,637	3,112,976	97,588,613
Deferred amount for right-to-use assets	14,426	115,724	130,150
Net Position	\$ (436,032,730)	(275,496)	\$ (436,308,226)

Combined Statement of Revenues, Expenses, and Changes in Net Position	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Expenses			
Amortization	\$ 7,367,294	\$ 1,761,728	\$ 9,129,022
Outside and other purchased services	13,543,522	(1,272,211)	12,271,311
Nonoperating Revenues and Expenses			
Interest expense	(4,720,776)	210,858	(4,509,918)
Cumulative effect of change in accounting method GASB 87	-	3,163	3,163
Net Position	\$ (436,032,730)	(275,496)	\$ (436,308,226)

UPCOMING ACCOUNTING PRONOUNCEMENTS

UMG is still evaluating the impact on its financial statements of the following upcoming GASB accounting pronouncements: Paragraphs 4 through 10 of GASB Statement No. 99, Omnibus 2022 (GASB 99) effective for fiscal years beginning after June 15, 2023 and all reporting periods thereafter; and GASB Statement No. 101, Compensated Absences (GASB 101) effective for fiscal years beginning after December 15, 2023 and all reporting periods thereafter.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 3 – NET PATIENT SERVICE REVENUES

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

	2023	2022
Gross patient service revenues	\$ 288,840,538	\$ 270,535,594
Less contractual allowances and provisions for bad debt	(159,283,288)	(146,760,744)
Net patient service revenues	\$ 129,557,250	\$ 123,774,850

SIGNIFICANT CONCENTRATIONS

UMG has agreements with third-party payors that provide for payments to UMG at amounts different from UMG’s established rates. The most significant of these arrangements are with Medicare and Medicaid. Concentrations of total net patient service revenues and associated year-end patient accounts receivable for these programs are shown in the table below:

	Medicare		Medicaid	
	2023	2022	2023	2022
Net patient service revenues	32%	30%	15%	16%
Patient accounts receivable	23%	22%	8%	11%

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. UMG believes that it complies with all applicable laws and regulations. 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.

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.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 3 – NET PATIENT SERVICE REVENUES (CONTINUED)

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 2023 and 2022, UMG recorded \$21.3 million and \$20.9 million, respectively, in supplemental revenue from the Department of Social Services, which is included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

COMMERCIAL FEE SCHEDULES

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.

CONTRACT MANAGEMENT SYSTEM

For substantially all payors, the Epic Contract Management System (ECM) nets gross billings down to the expected net realizable amount at the time of billing based on UMG's loaded contracts.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 3 – NET PATIENT SERVICE REVENUES (CONTINUED)

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS (CONTINUED)

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 – LEASE RECEIVABLE

Lease receivable for the fiscal years ended June 30, 2023 and 2022 is as follows:

	June 30, 2022 Balance (Restated)	Additions	Deductions	June 30, 2023 Balance	Amount due within 1 year
Lease receivable total	\$ 134,150	\$ -	\$ (55,675)	\$ 78,475	\$ 49,563
	June 30, 2021 Balance	Additions	Deductions	June 30, 2022 Balance (Restated)	Amount due within 1 year
Lease receivable total	\$ 187,027	\$ -	\$ (52,877)	\$ 134,150	\$ 55,675

For the fiscal year ended June 30, 2023 and 2022, the statements of revenues, expenses, and changes in net position includes lease revenue of \$51,675 and \$52,877 in each fiscal year as well as interest income of \$3,938 and \$1,409, respectively.

Future lease receivables are summarized in the table below:

	Lease Receivable	
Year Ending June 30	Principal	Interest
2024	\$ 49,563	\$ 2,112
2025	28,912	370
Total	\$ 78,475	\$ 2,482

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 5 – HYPOTHECATION

In accordance with State statute, UMG can borrow from the State up to 70% of its total net patient accounts receivable and contract and other receivables to fund operations. As of June 30, 2023 and 2022, UMG had the following draws and availability:

	2023	2022
Amount drawn under hypothecation	\$ -	\$ 9,677,060
Remaining amounts available under hypothecation	\$ 10,982,533	\$ 667,972

NOTE 6 – CONTRACT AND OTHER REVENUES

UMG enters into contracts with external entities including hospitals, retirement homes, and the State’s Department of Corrections to provide physician services. UMG also provides physician services to entities within UConn Health, including the School of Medicine, School of Dental Medicine, Dental Clinics, and JDH. Other miscellaneous revenues, including population health payment and 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.

NOTE 7 – 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 2023 and 2022, UMG provided charity care services of \$873,387 and \$638,963, respectively. The increase in charity care for fiscal year 2023 reflects increased applications due to community need, partially attributed to the continued economic stresses including COVID, interest rate increases, and inflation.

The estimated cost of these services was \$281,143 and \$201,465, respectively, for the fiscal years ended June 30, 2023 and 2022. No net patient service revenue was recorded for these services; however, expenses associated with these services were included in operating expenses in the statements of revenues, expenses, and changes in net position.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 8 – COVID-19 RELIEF

The CARES Act was passed to mitigate the impact of the economic downturn set in motion by the global COVID-19 pandemic. Congress allocated funding to provide financial relief during the COVID-19 pandemic to be allocated mainly through the Department of Health and Human Services (HHS). UMG qualified for the distribution of funds during the years ended June 30, 2022 and 2021 as a provider billing Medicare fee-for-service. UMG was eligible for and recognized approximately \$5.2 million and \$2.0 million in total COVID-19 relief revenue in fiscal year 2022 and 2021. UMG received COVID-19 relief revenue from two different rounds, or tranches, of Provider Relief Funding during fiscal year 2020. The first tranche was based on previous Medicare payments and totaled approximately \$1.2 million. The second tranche was based on net revenue and totaled \$1.2 million. In fiscal year 2021, Congress allocated \$24.5 billion for General Distribution Phase 3, of which UMG received \$2.0 million based on lost revenues. In fiscal year 2022, UMG received additional CARES Act funding through Phase 4, based on COVID-19 related changes in operating revenues and expenses from June 1, 2020, to March 31, 2021 for \$5.0 million. Also in fiscal year 2022, UMG received approximately \$200,000 from the ARPA and \$711,000 from FEMA. ARPA distributed funds based on Medicare and Medicaid services for rural areas.

Criteria and reporting requirements for the Provider Relief Funding have been finalized by HHS. UMG management believes that the eligibility requirements have been met for the complete amount received based on increased operating expenses and lost revenues. As such, UMG recognized the funds received as nonoperating revenues in the statements of revenues, expenses, and changes in net position for the years ended June 30, 2023 and 2022.

Certain of the COVID-19 relief programs require that the funds be utilized for lost revenues and COVID-19-related costs, and place limitations on the amounts that providers can collect from COVID-19 patients. Management's estimates of the amount of revenues recognized in fiscal 2020 through 2022 are complete, as the regulations associated with that time frame were finalized in March 2023. Management's estimates of the amount of revenues recognized in fiscal year 2023 are pending reconciliation for submitted documentation and, therefore, could change materially in the future. Any future adjustments to these estimates will be reported in the earnings of future periods.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 9 – CAPITAL AND INTANGIBLE ASSETS, NET

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

	<u>2023</u>	<u>2022 (Restated)</u>
Land	\$ 89,132	\$ 89,132
Construction in progress (estimated costs to complete of \$5 million and \$4.3 million at June 30, 2023 and 2022, respectively)	1,368,637	1,155,604
Buildings and leasehold improvements	15,822,183	12,689,479
Equipment	8,723,355	8,036,348
Computer software	13,930,521	13,706,431
Total capital and intangible assets	<u>39,933,828</u>	<u>35,676,994</u>
Less: accumulated amortization	<u>25,177,661</u>	<u>23,249,259</u>
Capital and intangible assets, net	<u>\$ 14,756,167</u>	<u>\$ 12,427,735</u>

	<u>2023</u>	<u>2022 (Restated)</u>
Right-to-use assets - buildings	\$ 110,289,604	\$ 110,624,819
Right-to-use assets - equipment	682,134	533,681
Right-to-use assets - subscriptions	5,476,132	4,942,057
Total right-to-use assets	<u>116,447,870</u>	<u>116,100,557</u>
Less: accumulated amortization	<u>25,042,019</u>	<u>16,182,555</u>
Right-to-use assets, net	<u>\$ 91,405,851</u>	<u>\$ 99,918,002</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 9 – CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

Capital asset activity for the fiscal years ended June 30, 2023 and 2022 is as follows:

	2022 (Restated)	Additions	Deductions	2023
Land	\$ 89,132	\$ -	\$ -	\$ 89,132
Construction in progress	1,155,604	4,132,766	(3,919,733)	1,368,637
Buildings and leasehold improvements	12,689,479	3,132,704	-	15,822,183
Equipment	8,036,348	959,485	(272,478)	8,723,355
Computer software	13,706,431	224,090	-	13,930,521
Total capital assets	<u>\$ 35,676,994</u>	<u>\$ 8,449,045</u>	<u>\$ (4,192,211)</u>	<u>\$ 39,933,828</u>
	2021	Additions	Deductions	2022 (Restated)
Land	\$ 89,132	\$ -	\$ -	\$ 89,132
Construction in progress	270,916	1,093,145	(208,457)	1,155,604
Buildings and leasehold improvements	12,560,232	208,457	(79,210)	12,689,479
Equipment	9,154,613	384,595	(1,502,860)	8,036,348
Computer software	13,543,506	194,514	(31,589)	13,706,431
Total capital assets	<u>\$ 35,618,399</u>	<u>\$ 1,880,711</u>	<u>\$ (1,822,116)</u>	<u>\$ 35,676,994</u>

Related information on accumulated depreciation for the fiscal years ended June 30, 2023 and 2022 was as follows:

	2022 (Restated)	Additions	Deductions	2023
Buildings and leasehold improvements	\$ 10,177,344	\$ 385,657	\$ -	\$ 10,563,001
Equipment	6,970,989	402,633	(271,518)	7,102,104
Computer software	6,100,926	1,411,630	-	7,512,556
Total accumulated depreciation	<u>\$ 23,249,259</u>	<u>\$ 2,199,920</u>	<u>\$ (271,518)</u>	<u>\$ 25,177,661</u>
	2021	Additions	Deductions	2022 (Restated)
Buildings and leasehold improvements	\$ 9,938,943	\$ 317,611	\$ (79,210)	\$ 10,177,344
Equipment	8,078,077	392,929	(1,500,017)	6,970,989
Computer software	4,803,643	1,328,872	(31,589)	6,100,926
Total accumulated depreciation	<u>\$ 22,820,663</u>	<u>\$ 2,039,412</u>	<u>\$ (1,610,816)</u>	<u>\$ 23,249,259</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 9 – CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

Activity for the Right-to-use assets for the fiscal years ended June 30, 2023 and 2022 was as follows:

	2022 (Restated)	Additions	Deductions	2023
Right-to-use assets - buildings	\$ 110,624,819	\$ -	\$ (335,215)	\$ 110,289,604
Right-to-use assets - equipment	533,681	243,864	(95,411)	682,134
Right-to-use assets - subscriptions	4,942,057	534,075	-	5,476,132
Total right-to-use assets	<u>\$ 116,100,557</u>	<u>\$ 777,939</u>	<u>\$ (430,626)</u>	<u>\$ 116,447,870</u>

	2021	Additions	Deductions	2022 (Restated)
Right-to-use assets - buildings	\$ 110,123,012	\$ 501,807	\$ -	\$ 110,624,819
Right-to-use assets - equipment	304,836	270,166	(41,321)	533,681
Right-to-use assets - subscriptions	-	4,942,057	-	4,942,057
Total right-to-use assets	<u>\$ 110,427,848</u>	<u>\$ 5,714,030</u>	<u>\$ (41,321)</u>	<u>\$ 116,100,557</u>

Related information on accumulated amortization for the fiscal years ended June 30, 2023 and 2022 was as follows:

	2022 (Restated)	Additions	Deductions	2023
Right-to-use assets - buildings	\$ 14,240,952	\$ 7,178,215	\$ (223,476)	\$ 21,195,691
Right-to-use assets - equipment	215,403	155,892	(73,389)	297,906
Right-to-use assets - subscriptions	1,726,200	2,117,377	(295,155)	3,548,422
Total accumulated amortization	<u>\$ 16,182,555</u>	<u>\$ 9,451,484</u>	<u>\$ (592,020)</u>	<u>\$ 25,042,019</u>

	2021	Additions	Deductions	2022 (Restated)
Right-to-use assets - buildings	\$ 6,948,087	\$ 7,292,865	\$ -	\$ 14,240,952
Right-to-use assets - equipment	105,446	109,957	-	215,403
Right-to-use assets - subscriptions	-	1,726,200	-	1,726,200
Total accumulated amortization	<u>\$ 7,053,533</u>	<u>\$ 9,129,022</u>	<u>\$ -</u>	<u>\$ 16,182,555</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

**NOTE 10 – LONG-TERM LIABILITIES, LEASES, AND SUBSCRIPTION-BASED INFORMATION
TECHNOLOGY ARRANGEMENTS**

Activity related to long-term liabilities and leases for the fiscal years ended June 30, 2023 and 2022 was as follows:

	June 30, 2022			June 30, 2023		Amounts due
	Balance (Restated)	Additions	Deductions	Balance		within 1 year
Right-to-use lease liabilities	\$ 100,250,773	\$ -	\$ (5,921,303)	\$ 94,329,470	\$ 5,309,013	
Right-to-use subscriptions	4,023,530	772,132	(958,939)	3,836,723	1,099,414	
Total leases and subscriptions	<u>\$ 104,274,303</u>	<u>\$ 772,132</u>	<u>\$ (6,880,242)</u>	<u>\$ 98,166,193</u>	<u>\$ 6,408,427</u>	
Other long-term liabilities						
Accrued compensated absences	\$ 8,621,644	\$ 6,285,738	\$ (5,536,401)	\$ 9,370,981	\$ 4,156,967	
Pension liabilities	218,638,387	32,841,851	(86,651,314)	164,828,924	-	
OPEB liabilities	300,576,329	13,441,734	(73,194,362)	240,823,701	-	
Total other liabilities	<u>\$ 527,836,360</u>	<u>\$ 52,569,323</u>	<u>\$ (165,382,077)</u>	<u>\$ 415,023,606</u>	<u>\$ 4,156,967</u>	
Total long-term liabilities	<u>\$ 632,110,663</u>	<u>\$ 53,341,455</u>	<u>\$ (172,262,319)</u>	<u>\$ 513,189,799</u>	<u>\$ 10,565,394</u>	
	June 30, 2021			June 30, 2022		Amounts due
	Balance	Additions	Deductions	Balance (Restated)		within 1 year
Right-to-use lease liabilities	\$ 105,306,736	\$ 376,969	\$ (5,432,932)	\$ 100,250,773	\$ 5,726,751	
Right-to-use subscriptions	-	4,023,530	-	4,023,530	958,939	
Total leases and subscriptions	<u>\$ 105,306,736</u>	<u>\$ 4,400,499</u>	<u>\$ (5,432,932)</u>	<u>\$ 104,274,303</u>	<u>\$ 6,685,690</u>	
Other long-term liabilities						
Accrued compensated absences	\$ 9,691,260	\$ 2,891,202	\$ (3,960,818)	\$ 8,621,644	\$ 3,523,666	
Pension liabilities	218,230,824	48,751,905	(48,344,342)	218,638,387	-	
OPEB liabilities	353,032,201	25,429,392	(77,885,264)	300,576,329	-	
Total other liabilities	<u>\$ 580,954,285</u>	<u>\$ 77,072,499</u>	<u>\$ (130,190,424)</u>	<u>\$ 527,836,360</u>	<u>\$ 3,523,666</u>	
Total long-term liabilities	<u>\$ 686,261,021</u>	<u>\$ 81,472,998</u>	<u>\$ (135,623,356)</u>	<u>\$ 632,110,663</u>	<u>\$ 10,209,356</u>	

UConn Medical Group routinely leases various facilities and equipment instead of purchasing the assets. The contracts, at times, include variable payments, residual value guarantees or termination penalties that are not known or uncertain to be exercised at the time of the lease liability valuation. These are recognized as expenses in the period that they occur. There were no termination penalties or residual guarantee payments expensed for the fiscal year ended June 30, 2023. For the fiscal year ended June 30, 2023 and 2022, UMG recognized expense for lease variable payments as summarized in the following table:

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 10 – LONG-TERM LIABILITIES, LEASES, AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (CONTINUED)

Expense Category	2023 Expenses Allocated	2022 Expenses Allocated
Common area expense	\$ 295,480	\$ 94,878
Property taxes	4,443	113,332
Fit out costs	-	235,200
Grand Total	<u>\$ 299,923</u>	<u>\$ 443,410</u>

The following is a schedule, by fiscal year, of future minimum payments due for leases, together with the present value of the net minimum lease payments as of June 30, 2023:

Fiscal Year Ending June 30	Lease Liabilities	
	Principal	Interest
2024	\$ 5,309,013	\$ 4,238,809
2025	4,951,699	4,006,171
2026	4,952,511	3,789,954
2027	5,192,152	3,566,950
2028	5,208,810	3,334,820
2029-2033	26,408,879	13,106,398
2034-2038	30,617,047	6,568,088
2039-2042	11,689,359	514,346
Total lease and installment purchase liabilities	<u>\$ 94,329,470</u>	<u>\$ 39,125,536</u>

UMG has entered various subscription-based information technology arrangements (SBITAs) to support its services. SBITAs entered into, or in place, during the fiscal years ended June 30, 2022 and 2023 include:

- Various desktop and server software subscriptions;
- Electronic workflow software;
- Budgeting, accounting, and information system software;
- Performance measurement/benchmarking software;

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

**NOTE 10 – LONG-TERM LIABILITIES, LEASES, AND SUBSCRIPTION-BASED INFORMATION
TECHNOLOGY ARRANGEMENTS (CONTINUED)**

- Document management software;
- Payroll and human resources services software; and
- Information technology security software.

The following is a schedule, by fiscal year, of future minimum subscription payments due:

Fiscal Year Ending June 30	Subscription Liabilities	
	Principal	Interest
2024	\$ 1,099,414	\$ 124,533
2025	882,910	87,752
2026	878,556	58,299
2027	549,432	31,493
2028	426,411	7,722
Total subscription liabilities	\$ 3,836,723	\$ 309,799

UMG had no other outflows of resources in relation to these subscriptions during the fiscal years ended June 30, 2022 and 2023 that were not included in the measurement of the subscription liability.

NOTE 11 – PENSION AND OPEB PLANS

Employees of UMG are eligible to participate in the SERS, a defined benefit pension plan that is administered by the State Employees' Retirement Commission; the ARP, a defined contribution plan administered by the State; or the TRS, a defined benefit plan administered by the Teacher's Retirement Board; collectively, the "plans." Through their participation in one of the above plans, employees are also enrolled in the SEOPEBP. SERS, TRS and SEOPEBP do not issue stand-alone financial reports but are reported as fiduciary funds within the State's Annual Comprehensive Financial Report (ACFR). Financial reports are available on the website of the Office of the State Comptroller at www.osc.ct.gov. Information for the SERS and OPEB plans, in which UMG holds significant liabilities under GASB 68 and GASB 75, respectively, is presented below.

SERS PLAN DESCRIPTION

SERS is a single-employer defined benefit Public Employees' Retirement System (PERS) established in 1939 and governed by Sections 5-152 to 5-192 of the Connecticut General Statutes.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

The SERS plan covers substantially all of the State’s full-time employees who are not eligible for another State sponsored retirement plan. SERS is administered by the State Comptroller’s Retirement Division under the direction of the State Employees Retirement Commission. Employees are covered under one of five tiers; Tier I, Tier II, Tier IIA, Tier III, and Tier IV including the (Hybrid Plan). In accordance with GASB 68, UMG must report for its participation in SERS as if it were a cost-sharing employer plan.

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

Deferred Vesting – SERS

- Tier I - 10 years of service
- Tier II and IIA - Effective July 1, 1997, 5 years of actual state service, 10 years of vesting service, or age 70 with 5 years of service
- Tier III and IV - 10 years of benefit service

Contributions - The contribution requirements are established and may be amended by the State legislature subject to the contractual rights established by collective bargaining. The State is required to contribute at an actuarially determined rate. Employee contribution rates for the fiscal year ended June 30, 2023 were:

- Tier I Hazardous - 6% of earnings up to Social Security Taxable Wage Base plus 7% of earnings above that level
- Tier I Plan B - 4% of earnings up to Social Security Taxable Base plus 7% of earnings above that level
- Tier I Plan C - 7% of earnings
- Tier II Hazardous - 6% of earnings
- Tier II (all others) - 2% of earnings
- Tier IIA and III Hazardous - 7 % of earnings
- Tier IIA and III (all others) - 4% of earnings
- Tier IV Hazardous - 8% of earnings
- Tier IV (all others) - 5% of earnings

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

In accordance with the SEBAC 2017 agreement, an increase to all non-Tier IV members contribution rates of 1.5% of earnings became effective July 1, 2017 and an additional 0.5% of earnings was effective July 1, 2019. In years where asset losses require further increases in contributions, Tier IV employee contributions may increase by half the necessary increase in rates (up to 2%). Finally, all Tier IV employees must contribute 1% to the defined benefit component and may elect additional contributions of up to 3% of salary. The State is required to contribute at an actuarially determined rate to the defined benefit component and 1% of eligible compensation to the defined contribution component.

Individuals hired on or after July 1, 2011 and before July 1, 2017, who were otherwise eligible for ARP were also eligible to become members of the Hybrid Plan. The Hybrid Plan has defined benefits identical to Tiers II, IIA, and III, but requires employee contributions 3% higher than the contribution required from the applicable Tier II, IIA, or III 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, 2011. Employees who elected by July 1, 2013 to maintain their eligibility are required to make additional employee contributions for the length of their remaining service with SERS. The additional contribution is up to 0.72% of pensionable earnings.

The annual COLA for those retiring on or after July 1, 2022 is based on the annual rate of increase in Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from 0.0% to 2.0%, plus 60% of the annual rate of increase in the CPI-W from 3.3% to 6.0%, plus 75% of the annual rate of increase in CPI-W above 6.0% and with a cap on the COLA rate of 7.5%. A COLA moratorium exists for those retiring on or after July 1, 2022 for the first 30 months of retirement benefits. If the rate of increase in CPI-W exceeds an annualized rate of 5.5% during the initial 18-month period of receiving retirement benefits, the COLA provided beginning with the 31st monthly benefit includes an additional adjustment based on the annual COLA rate as determined above using the annualized rate over the 18-month period. The COLA rate applied is reduced by 2.5% and then multiplied by 1.5 to reflect the 18-month period.

The pension liability recorded as of June 30, 2023 and 2022 was based on the June 30, 2022 and 2021 actuarial valuations, respectively.

CHANGES IN ASSUMPTIONS (SERS)

Listed below are the changes to the actuarial assumptions since the June 30, 2021 measurement date.

- Wage inflation assumed rate changed from 3.5% to 3.0%;
- Assumed salary scale changed to reflect experience in above wage inflation rates of increase;

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

CHANGES IN ASSUMPTIONS (SERS) (CONTINUED)

- Assumed rates of mortality have been revised to the Pub-2010 Above Median Mortality Tables (amount-weighted) projected generationally with MP-2020 improvement scale; and
- Assumed rates of withdrawal, disability and retirement have been adjusted to reflect experience more closely.

CONTRIBUTIONS MADE (SERS)

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, roll-forwards, and other adjustments, was 67.40%, 65.90%, and 61.14% during fiscal years 2023, 2022, and 2021, respectively. SERS contributions made compared to covered payroll is as follows:

	Years Ended June 30		
	2023	2022	2021
Total UMG payroll covered by SERS	\$ 51,189,301	\$ 46,647,440	\$ 43,496,018
Total UMG SERS contributions	\$ 22,991,345	\$ 21,077,794	\$ 18,242,562
Contributions as a percentage of covered payroll	44.9%	45.2%	41.9%

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

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.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

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

At June 30, 2023 and 2022, UMG recorded a SERS related liability of \$164.8 million and \$218.6 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and 2021, respectively, and the total pension liability used to calculate the net pension liability was determined based on actuarial valuations performed as of June 30, 2022 and June 30, 2021, respectively, 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 2022 and 2021 fiscal years, respectively. For the fiscal years ended June 30, 2022 and 2021, UMG's proportion of contributions was 0.74% and 1.02%, respectively.

For the fiscal years ended June 30, 2023 and 2022, UMG recognized SERS pension expense of \$4.6 million and \$32.6 million, respectively. The pension expense is reported in UMG's statements of revenues, expenses, and changes in net position as part of fringe benefits expenses.

At June 30, 2023 and 2022, UMG reported deferred outflows of resources and deferred inflows of resources related to the SERS plan from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	<i>(in thousands)</i>			
Change in proportionate allocation of pension expense	\$ 32,476	\$ -	\$ 46,808	\$ -
UMG contributions subsequent to measurement date	22,991	-	21,078	-
Net difference between projected and actual earnings on pension plan investments	7,306	-	-	15,307
Difference between expected and actual experience	17,383	-	15,019	-
Net difference between employer contribution and proportionate share	-	48,322	-	-
Changes in assumptions	-	223	-	400
	<u>\$ 80,156</u>	<u>\$ 48,545</u>	<u>\$ 82,905</u>	<u>\$ 15,707</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES (SERS) (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 5.15 and 5.33, for the fiscal years ended June 30, 2023 and 2022, respectively.

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	Difference between employer contribution and proportionate share	Change in assumptions
<i>(in thousands)</i>					
2024	\$ 14,005	\$ 2,111	\$ 6,242	\$ (11,644)	\$ 235
2025	11,013	2,111	5,030	(11,644)	(86)
2026	6,011	1,200	3,605	(11,644)	(349)
2027	1,447	1,884	2,250	(11,644)	(36)
2028	-	-	256	(1,746)	13
	<u>\$ 32,476</u>	<u>\$ 7,306</u>	<u>\$ 17,383</u>	<u>\$ (48,322)</u>	<u>\$ (223)</u>

The amortization of the aforementioned deferred inflows and deferred outflows decreased fringe benefits expense by \$18,350,115 in fiscal year 2023 but increased fringe expense \$11,520,151 during the fiscal year ended June 30, 2022.

ACTUARIAL METHODS AND ASSUMPTIONS (SERS)

The total SERS pension liability in the June 30, 2022 and 2021 actuarial valuation was determined based on the results of an actuarial experience study for the period July 1, 2015-June 30, 2020. The Mortality Table was used for the period after service retirement and for dependent beneficiaries. The key actuarial assumptions are summarized below:

Inflation:	2.50%
Salary increase:	3.00% - 11.50% including inflation
Investment rate of return:	6.90%, net of pension plan investment expense, including inflation

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

DISCOUNT RATE (SERS)

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 UMG 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 for June 30, 2022 and 2021 through the year 2125 and 2144, respectively.

EXPECTED RATE OF RETURN ON INVESTMENTS (SERS)

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.

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class for June 2022 and 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity Fund	20%	5.6%
Developed Market Intl. Stock Fund	11%	6.4%
Emerging Market Intl. Stock Fund	9%	8.6%
Real Estate Fund	19%	5.2%
Private Equity	10%	9.4%
Private Credit	5%	6.5%
Alternative Investments	3%	3.1%
Core Fixed Income Fund	13%	0.8%
High Yield Bond Fund	3%	3.4%
Emerging Market Debt Fund	5%	3.8%
Liquidity Fund	<u>2%</u>	(0.4)%
	<u>100%</u>	

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

CHANGES IN THE NET PENSION LIABILITY (SERS)

	2022 Pension Liability	2021 Pension Liability	2020 Pension Liability
	<i>(in thousands)</i>		
Beginning balance - pension liability	\$ 391,458	\$ 337,066	\$ 296,473
Changes for the year:			
Service cost	3,214	4,048	3,544
Interest	18,965	25,259	22,032
Differences between expected and actual experience	12,554	7,945	1,898
Changes of assumptions	-	(492)	-
Benefit payments, including refunds of member contributions	(17,625)	(22,740)	(19,421)
Change in proportionate allocation of pension liability	(107,794)	40,372	32,540
Net change in pension liability	(90,686)	54,392	40,593
Ending balance - pension liability (a)	\$ 300,772	\$ 391,458	\$ 337,066
	2022 Fiduciary Net Position	2021 Fiduciary Net Position	2020 Fiduciary Net Position
	<i>(in thousands)</i>		
Beginning balance - fiduciary net position	\$ 174,376	\$ 120,796	\$ 109,064
Changes for the year:			
Contributions - employer	21,078	18,242	14,736
Contributions - employee	1,496	1,988	1,757
Net investment income	(11,195)	33,702	2,696
Benefit payments, including refunds of member contributions	(17,625)	(22,740)	(19,421)
Administrative expenses	-	(6)	(7)
Other	17,514	7,925	-
Change in proportionate allocation of fiduciary net position	(48,017)	14,469	11,971
Net change in fiduciary net position	(36,749)	53,580	11,732
Ending balance - fiduciary net position (b)	\$ 137,627	\$ 174,376	\$ 120,796
UMG's net pension liability - ending (a) - (b)	\$ 163,145	\$ 217,082	\$ 216,270

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

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

The following table presents UMG's proportionate share of the net pension liability as of June 30, 2023 and 2022, 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:

	2023		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	(5.90%)	(6.90%)	(7.90%)
	<i>(in thousands)</i>		
UMG's proportionate share of the net pension liability	\$ 199,080	\$ 163,145	\$ 133,196
	2022		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	(5.90%)	(6.90%)	(7.90%)
	<i>(in thousands)</i>		
UMG's proportionate share of the net pension liability	\$ 263,814	\$ 217,802	\$ 178,114

TEACHERS' RETIREMENT SYSTEM

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

As of June 30, 2023 and 2022, UMG recorded the following amounts in the financial statements related to the TRS:

	2023	2022	2021
	<i>(in thousands)</i>		
Deferred outflows of resources	\$ 967	\$ 1,231	\$ 1,522
Deferred inflows of resources	\$ 138	\$ 247	\$ 63
Pension liability	\$ 1,683	\$ 1,556	\$ 1,961

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

ALTERNATE RETIREMENT PLAN

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

All unclassified employees, not already in a pension plan, of a constituent unit of the State system of higher education and the central office staff of the Department of Higher Education, are eligible to participate in the ARP. Participants must contribute 5% of eligible compensation each pay period, while the State will contribute an amount up to 7.25% of the participant's eligible compensation for fiscal years 2023 and 2022, via a charge recouped from UMG.

Participant and State contributions are both 100% vested immediately. For fiscal years 2023 and 2022, UMG contributions to the ARP were approximately \$8.1 million and \$7.7 million, respectively. The liabilities as of June 30, 2023 and 2022 were approximately \$321,000 and \$589,000, respectively.

Upon separation from service, retirement, death, or divorce (or alternate payee under a Qualified Domestic Relations Order), if the participant is age 55 or over and has more than 5 years of plan participation, a participant or designated beneficiary can withdraw a partial or lump-sum 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.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to pension benefits, the State provides postemployment health care and life insurance benefits to UMG employees in accordance with Sections 5-257(d) and 5-259(a) of the Connecticut General Statutes. 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.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

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 UMG 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, 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 Office of the State Comptroller. Information on the SEOPEBP’s total funding status and progress, contributions required, and trend information can be found in the State’s Annual Comprehensive Financial Report on the State Comptroller’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 is not readily available. At June 30, 2023 and 2022, the SEOPEBP was based on plan membership at June 30, 2021, covering the following:

Inactive employees or beneficiaries currently receiving benefit payments	79,870
Inactive employees entitled to but not yet receiving benefit payments	385
Active employees	49,927
Total covered employees	130,182

NET SEOPEBP LIABILITY

UMG’s OPEB liability of \$240.8 million as of June 30, 2023 for its proportionate share of the net OPEB liability was measured as of June 30, 2022 based on an actuarial valuation that was rolled forward to June 30, 2023. UMG’s OPEB liability of \$300.6 million as of June 30, 2022 for its proportionate share of the net OPEB liability was measured as of June 30, 2021 based on an actuarial valuation that was rolled forward to June 30, 2022. UMG’s proportion of the net OPEB liability was based on UMG’s percentage of total overall contributions to the plan. For the fiscal years ended June 30, 2022 and 2021, UMG’s proportion of contributions was 1.55% and 1.54%, respectively.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS (SEOPEBP)

The total OPEB liability in the June 30, 2023 and 2022 and actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial experience study:	July 1, 2015 - June 30, 2020
Payroll growth rate:	3.00%
Inflation:	2.50%
Salary increase:	3.00% to 11.5% varying by years of service and retirement system, including inflation

Discount rate: 3.90% as of June 30, 2022 and 2.31% as of June 30, 2021

Healthcare cost trends rates

Medical	6.0% graded to 4.5% over 6 years
Prescription Drug	6.0% graded to 4.5% over 6 years
Dental	3.0%
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 (3.54% as of June 30, 2022 and 2.16% as of June 30, 2021). The blending is based on the sufficiency of projected assets to make projected benefit payments.

Mortality rates for healthy personnel were based on the Pub-2010 General, Above-Median, Healthy Retiree Headcount-weighted Mortality Table projected generationally using Scale MP-2020. For disabled employees, Pub-2010 General, Disabled Retiree Headcount-weighted Mortality Table projected generationally using Scale MP-2020.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

CONTRIBUTIONS MADE (SEOPEBP)

The SEOPEBP contributions made to covered payroll is as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total UMG payroll covered by SEOPEBP	\$ 107,583,048	\$ 99,070,136	\$ 92,069,745
Total UMG SEOPEBP contributions	15,212,428	13,175,795	13,361,770
Contributions as a percentage of covered payroll	14.1%	13.3%	14.5%

CHANGES IN THE NET OPEB LIABILITY

	<u>2022</u>	<u>2021</u>	<u>2020</u>
	Net OPEB Liability	Net OPEB Liability	Net OPEB Liability
	<i>(in thousands)</i>		
Beginning balance	\$ 300,576	\$ 353,032	\$ 299,463
Changes for the year:			
Service cost	14,083	18,698	14,542
Interest	8,010	9,516	12,101
Differences between expected and actual experience	(4,814)	5,992	(2,693)
Changes in assumptions or other inputs	(69,345)	(75,979)	33,379
Benefit payments	(9,913)	(9,808)	(9,344)
Change in proportionate allocation of OPEB liability	<u>2,227</u>	<u>(875)</u>	<u>5,584</u>
Net changes	<u>(59,752)</u>	<u>(52,456)</u>	<u>53,569</u>
Ending balance	<u>\$ 240,824</u>	<u>\$ 300,576</u>	<u>\$ 353,032</u>

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

The following table presents UMG's proportionate share of net OPEB liability as of June 30, 2023 and 2022, using the discount rate of 3.90% and 2.31%, respectively, as well as the proportionate share of the net OPEB liability using a 1.00% increase or decrease from the current discount rate:

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

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

	2023		
	1% Decrease (2.90%)	Discount Rate (3.90%)	1% Increase (4.90%)
	<i>(in thousands)</i>		
Net OPEB Liability	\$ 281,569	\$ 240,824	\$ 207,867

	2022		
	1% Decrease (1.31%)	Discount Rate (2.31%)	1% Increase (3.31%)
	<i>(in thousands)</i>		
Net OPEB Liability	\$ 356,775	\$ 300,576	\$ 255,948

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
	<i>(in thousands)</i>		
Net OPEB Liability	\$ 203,291	\$ 240,824	\$ 288,468

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

For the fiscal years ended June 30, 2023 and 2022, UMG recognized OPEB expense of \$4.4 million and \$24.9 million, respectively. At June 30, 2023 and 2022, UMG reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (CONTINUED)

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	<i>(in thousands)</i>			
Changes in proportion	\$ 24,565	\$ -	\$ 37,869	\$ -
UMG contributions subsequent to measurement date	15,212	-	13,176	-
Net difference between expected and actual experience in total OPEB liability	3,704	7,412	4,831	5,931
Changes in assumptions or other inputs	27,121	103,750	43,506	64,784
Net difference between projected and actual earnings	2,244	-	-	2,800
	\$ 72,846	\$ 111,162	\$ 99,382	\$ 73,515

UMG contributions subsequent to the measurement date totaling \$15.2 million reported as deferred outflows of resources will be recognized as a reduction of the OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in fringe benefits expense as follows:

Years ending June 30:	Change in proportionate participation in OPEB plan	Net difference between expected and actual experience in total OPEB liability	Changes in assumptions or other inputs	Net difference between projected and actual earnings on OPEB plan investments	Net difference between expected and actual experience in total OPEB liability	Changes in assumptions or other inputs
	<i>(in thousands)</i>					
2024	\$ 14,826	\$ 1,170	\$ 16,382	\$ 439	\$ (3,319)	\$ (29,303)
2025	6,193	1,170	8,987	443	(1,922)	(28,274)
2026	2,597	1,169	1,713	262	(1,087)	(28,170)
2027	853	194	39	1,100	(935)	(15,844)
2028	96	1	-	-	(149)	(2,159)
Thereafter	-	-	-	-	-	-
	\$ 24,565	\$ 3,704	\$ 27,121	\$ 2,244	\$ (7,412)	\$ (103,750)

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 11 – PENSION AND OPEB PLANS (CONTINUED)

EXPECTED RATE OF RETURN ON INVESTMENTS (SEOPEBP)

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
Domestic Equity Fund	20%	5.4%
Developed Market Intl. Stock Fund	11%	6.4%
Emerging Market Intl. Stock Fund	9%	8.6%
Real Estate Fund	19%	5.2%
Private Equity	10%	9.4%
Private Credit	5%	6.5%
Alternative Investments	3%	3.1%
Core Fixed Income Fund	13%	0.8%
High Yield Bond Fund	3%	3.4%
Emerging Market Debt Fund	5%	3.8%
Liquidity Fund	<u>2%</u>	(0.4)%
	<u>100%</u>	

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 12 – 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.

UConn Health performs a Home Office allocation, which allocates substantially all central administrative expenses to its separate business units. The amount charged to the separate business units may not necessarily result in the net costs that are to be incurred by the business units on a stand-alone basis. The Home Office allocation allocates costs based on several different methodologies depending on cost type. The methodologies used are consistent with Medicare cost reporting and other federal costing standards, and include allocations based on square footage occupied, employee full-time equivalent (FTE) counts, as well as overall and total clinical cost breakouts. The Home Office allocation amounts are charged to business units each month based on operational results. Allocated expenses are grouped in their natural classification category for financial reporting purposes.

For the fiscal years ended June 30, 2023 and 2022, UConn Health also allocated COVID-19 response expenses to its business units, which are included in the Home Office allocations disclosed below. Expenses were reviewed for applicable business units and Home Office allocation methodology was applied for shared expenses.

For the fiscal years ended June 30, 2023 and 2022, these Home Office allocations resulted in the following expenses being recorded by UMG with an offsetting cash transfer back to UConn Health's Central Administrative Services business unit:

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 12 – RELATED PARTY TRANSACTIONS (CONTINUED)

Expense Category	2023 Expenses <u>Allocated</u>	2022 Expenses <u>Allocated</u>
Salaries and wages	\$ 9,311,926	\$ 9,123,522
Fringe benefits	7,425,189	7,276,810
Internal contractual support	823,089	1,228,317
Temporary Per Diem Staff	85,562	-
Utilities	2,205,827	2,169,539
Outside and purchased services	7,194,517	6,677,258
Insurance	64,412	131,037
Repairs and maintenance	2,286,978	2,097,448
Other expenses	920,590	1,068,725
Debt Services	9,965	-
Grand Total	<u>\$ 30,328,055</u>	<u>\$ 29,772,656</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 12 – RELATED PARTY TRANSACTIONS (CONTINUED)

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” in the statements of revenues, expenses, and changes in net position. As a result, the total net transfers from UConn Health were \$143,352,241 and \$103,738,133 for the fiscal years ended June 30, 2023 and 2022, respectively. Fringe recoveries of \$30,879,476 and \$40,452,935 were transferred from UConn Health during the fiscal years ended June 30, 2023 and 2022, respectively. UConn Health also allocates working capital based on organizational need throughout the year on an as-needed basis. UConn Health transferred \$112,472,764 and \$63,285,197 to UMG during the fiscal years ended June 30, 2023 and 2022, respectively, in working capital support.

As described in note 1 and note 11, UMG participates in certain State retirement and fringe benefit plans. UMG’s pension and OPEB liabilities (note 11) represent its pro-rata share of the State’s overall liabilities and are not current commitments. The State finances the pension and OPEB benefits on a pay-as-you-go basis through allocated retirement plan rates. During the fiscal years ended June 30, 2023 and 2022, UMG expensed \$63,221,400 and \$113,137,637, respectively, for employee fringe benefits, including contributions to the State employee retirement funds. Related salary costs for 2023 and 2022 were \$135,717,462 and \$130,876,360, respectively.

As more fully described in note 13, UConn Health charges UMG with an annual premium for medical malpractice costs, which is determined annually by UConn Health. UMG is not liable beyond the annual premium but may have future operational subsidies affected by the performance of the malpractice fund.

Included in contract and other revenues of \$8,653,886 and \$16,995,950 in 2023 and 2022, respectively, are professional service revenues arising under contracts with UConn Health, JDH, State agencies, and other outside entities.

Effective July 1, 1987, the University of Connecticut Health Center Finance Corporation (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, the Finance Corporation has been empowered to enter into purchase agreements, acquire facilities, approve write-offs of patient accounts receivable, process malpractice claims on behalf of UMG and UConn Health, as well as negotiate joint ventures, shared service, and other agreements for the benefit of UMG.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 12 – RELATED PARTY TRANSACTIONS (CONTINUED)

During fiscal years 2023 and 2022, UConn Health Pharmacy Services, Inc. (UHPSI), a wholly-owned subsidiary of the Finance Corporation, provided pharmaceuticals to UMG in the amount of approximately \$6.7 million and \$5.8 million, respectively. UMG records this charge in pharmaceutical/medical supplies expense in its statements of revenues, expenses, and changes in net position. During the fiscal years ended June 30, 2023 and 2022, UMG made payments to UHPSI in the amount of \$6.6 million and \$5.0 million, respectively. UMG had amounts due from/(to) Finance Corporation at June 30, 2023 and 2022 of approximately (\$618,000) and (\$546,000), respectively, which are recorded in the statements of net position.

At June 30, 2023 and 2022, UMG owed JDH \$3.2 million and \$306,000, respectively. The 2023 balance consisted primarily of patient deposits posted to a central clearing account in UMG that were owed back to JDH at year-end.

NOTE 13 – REPORTING OF THE MALPRACTICE FUND

UConn Health is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under UConn Health's incident reporting system and an estimate of incurred but not reported claims are accrued by UConn Health based on actuarially determined estimates that incorporate UConn Health's past experience, as well as other considerations, including significant year-over-year increases in patient volumes, adverse judgments and/or settlements, if any, the nature of each claim or incident and other relevant trend factors. UMG provides timely incident reporting to UConn Health to assist UConn Health in maintaining appropriate reserve balances.

To the extent that claims for cases exceed current year premiums charged by UConn Health, UConn Health may petition the State to make up the difference. UMG is not responsible for amounts beyond the annual premium allocated by UConn Health. However, operational subsidies from the State and/or UConn Health may be affected by the performance of UConn Health's malpractice program.

At June 30, 2023 and 2022, UConn Health's Malpractice Fund had reserves of approximately \$49.7 million and \$42.5 million, respectively, and assets of approximately \$42.8 million and \$41.2 million, respectively. It was estimated that \$2.4 million would be used in fiscal year 2024 for settling cases. Current reserves include provision for the initial rulings in *Monroe Lynch, et al v. State of Connecticut*, which awarded the plaintiffs therein \$34.6 million. UConn Health has accrued a liability based on the initial adjusted judgment. UConn Health appealed the ruling in September 2021 and the case remains before the Connecticut Supreme Court.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Connecticut Health Center UConn Medical Group (UMG), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise UMG's basic financial statements, and have issued our report thereon dated November 21, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether UMG'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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



CliftonLarsonAllen LLP

West Hartford, Connecticut

November 21, 2023

**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**

	2022	2021	2020	2019	2018	2017	2016	2015	2014
	<i>(dollars in thousands)</i>								
Total Pension Liability									
Service cost	\$ 3,214	\$ 4,048	\$ 3,544	\$ 3,220	\$ 2,778	\$ 2,975	\$ 1,992	\$ 1,800	\$ 1,471
Interest	18,965	25,259	22,032	18,818	14,320	13,970	13,023	11,900	10,226
Differences between expected and actual experience	12,554	7,945	1,898	10,058	3,125	(8,945)	4,779	-	-
Changes of assumptions	-	(492)	-	-	-	-	30,671	-	-
Benefit payments, including refunds of member contributions	(17,625)	(22,740)	(19,421)	(16,703)	(12,707)	(11,494)	(10,737)	(9,609)	(8,017)
Change in proportionate allocation of pension liability	<u>(107,794)</u>	<u>40,372</u>	<u>32,540</u>	<u>59,680</u>	<u>9,162</u>	<u>326</u>	<u>10,521</u>	<u>18,039</u>	<u>-</u>
Net Change in Total Pension Liability	(90,686)	54,392	40,593	75,073	16,678	(3,168)	50,249	22,130	3,680
Total Pension Liability - Beginning	<u>391,458</u>	<u>337,066</u>	<u>296,473</u>	<u>221,400</u>	<u>204,722</u>	<u>207,890</u>	<u>157,641</u>	<u>135,511</u>	<u>131,831</u>
Total Pension Liability - Ending (a)	<u>\$ 300,772</u>	<u>\$ 391,458</u>	<u>\$ 337,066</u>	<u>\$ 296,473</u>	<u>\$ 221,400</u>	<u>\$ 204,722</u>	<u>\$ 207,890</u>	<u>\$ 157,641</u>	<u>\$ 135,511</u>

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

**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**

	2022	2021	2020	2019	2018	2017	2016	2015	2014
	<i>(dollars in thousands)</i>								
Fiduciary Net Position									
Contributions - employer	\$ 21,078	\$ 18,242	\$ 14,736	\$ 12,966	\$ 9,338	\$ 9,553	\$ 9,287	\$ 7,953	\$ 6,492
Contributions - employee	1,496	1,988	1,757	4,018	1,255	821	835	1,086	741
Net investment income	(11,195)	33,702	2,696	5,840	5,668	9,352	(1)	1,706	7,385
Benefit payments, including refunds of member contributions	(17,625)	(22,740)	(19,421)	(16,703)	(12,707)	(11,494)	(10,737)	(9,609)	(8,017)
Administrative expenses	-	(6)	(7)	(6)	(3)	(4)	(4)	-	-
Other	17,514	7,925	-	30	(20)	(2)	530	-	-
Change in proportionate allocation of fiduciary net position	(48,017)	14,469	11,971	21,853	3,322	102	4,127	7,132	-
Net Change in Fiduciary Net Position	(36,749)	53,580	11,732	27,998	6,853	8,328	4,037	8,268	6,601
Fiduciary Net Position - Beginning	174,376	120,796	109,064	81,066	74,213	65,885	61,848	53,580	46,979
Fiduciary Net Position - Ending (b)	\$ 137,627	\$ 174,376	\$ 120,796	\$ 109,064	\$ 81,066	\$ 74,213	\$ 65,885	\$ 61,848	\$ 53,580
UMG's Net Pension Liability - Ending (a) - (b)	\$ 163,145	\$ 217,082	\$ 216,270	\$ 187,409	\$ 140,334	\$ 130,509	\$ 142,005	\$ 95,793	\$ 81,931
UMG's Estimated Portion of SERS Net Pension Liability	0.74%	1.02%	0.91%	0.82%	0.65%	0.62%	0.62%	0.58%	0.51%
Fiduciary Net Position as a Percentage of the Total Pension Liability	45.76%	44.55%	35.84%	36.79%	36.62%	36.25%	31.69%	39.23%	39.54%
UMG's Covered Payroll	\$ 51,189	\$ 43,496	\$ 40,504	\$ 32,551	\$ 27,090	\$ 26,025	\$ 25,860	\$ 23,424	\$ 19,273
UMG's Estimated Net Pension Liability as a Percentage of Covered Payroll	318.71%	499.08%	533.95%	575.74%	518.03%	501.48%	549.13%	408.95%	425.11%

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF UMG CONTRIBUTIONS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
	<i>(dollars in thousands)</i>									
Contractually required contributions	\$ 22,991	\$ 21,078	\$ 18,243	\$ 14,736	\$ 12,966	\$ 9,338	\$ 9,553	\$ 9,366	\$ 7,953	\$ 6,492
Contributions in relation to the contractually required contribution	<u>22,991</u>	<u>21,078</u>	<u>18,243</u>	<u>14,736</u>	<u>12,966</u>	<u>9,338</u>	<u>9,553</u>	<u>9,287</u>	<u>7,953</u>	<u>6,492</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ -</u>
UMG's covered payroll	\$ 51,189	\$ 46,647	\$ 43,496	\$ 40,504	\$ 32,551	\$ 27,090	\$ 26,025	\$ 25,860	\$ 23,424	\$ 19,273
Contributions as a percentage of covered payroll	44.91%	45.19%	41.94%	36.38%	39.83%	34.47%	36.71%	35.91%	33.95%	33.68%

NOTES TO REQUIRED SCHEDULES

Key Actuarial Assumptions

Inflation: 2.5%

Salary increases: 3.00 - 11.50 percent, including inflation

Investment rate of return: 6.90 percent, net of pension plan investment expense, including inflation.

Change in Benefit Terms

2020 - The SEBAC 2017 agreement included changes to benefit terms for existing SERS plans by revising certain factors including employee contribution rates and annual cost-of-living adjustments for members retiring after July 1, 2022. The agreement also implemented a new Tier IV Plan.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ANNUAL MONEY-WEIGHTED RATES OF RETURN - STATE EMPLOYEES' RETIREMENT SYSTEM ONLY

Annual money-weighted rates of return net of investment expense	2022	2021	2020	2019	2018	2017	2016	2015	2014
State Employees' Retirement Fund	-7.63%	24.36%	1.86%	5.88%	7.30%	14.32%	0.23%	2.83%	15.62%

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF UMG'S OPEB CONTRIBUTION

	2022	2021	2020	2019	2018	2017
	<i>(dollars in thousands)</i>					
Net OPEB Liability						
Service cost	\$ 14,083	\$ 18,698	\$ 14,542	\$ 12,281	\$ 10,565	\$ 10,474
Interest	8,010	9,516	12,101	10,675	7,970	5,571
Differences between expected and actual experience	(4,814)	5,992	(2,693)	(9,348)	-	-
Changes of assumptions or other inputs	(69,345)	(75,979)	33,379	49,484	(8,485)	(5,567)
Benefit payments	(9,913)	(9,808)	(9,344)	(8,592)	(7,597)	(6,969)
Change in proportionate allocation of OPEB liability	2,227	(875)	5,584	42,670	10,610	(2,000)
Change in Net OPEB Liability	(59,752)	(52,456)	53,569	97,170	13,063	1,509
Net OPEB Liability - Beginning	300,576	353,032	299,463	202,293	189,230	187,721
Net OPEB Liability - Ending	<u>\$ 240,824</u>	<u>\$ 300,576</u>	<u>\$ 353,032</u>	<u>\$ 299,463</u>	<u>\$ 202,293</u>	<u>\$ 189,230</u>
Covered Payroll	\$ 99,070	\$ 92,070	\$ 87,096	\$ 80,717	\$ 77,725	\$ 76,699
Total OPEB Liability as a Percentage of Covered Payroll	243.08%	326.46%	405.34%	371.00%	260.27%	246.72%

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

NOTES TO REQUIRED SCHEDULES

Change in Assumptions

In the June 30, 2022 actual valuation, the discount rate was updated in accordance with GASB Statement No. 75 to 3.90% as of June 30, 2022. The trends for Medicare-eligible retiree costs were updated to reflect final negotiated changed in Medicare Advantage rates for calendar year 2022.

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF UMG'S OPEB CONTRIBUTION

	2022	2021	2020	2019	2018	2017	2016
	<i>(dollars in thousands)</i>						
UMG's proportion of the net OPEB liability	1.55%	1.54%	1.50%	1.15%	1.11%	1.09%	1.09%
UMG's proportionate share of the net OPEB liability	\$ 240,824	\$ 300,576	\$ 353,032	\$ 299,463	\$ 202,293	\$ 189,230	\$ 187,721
UMG's covered payroll	\$ 99,070	\$ 92,070	\$ 87,096	\$ 80,717	\$ 77,725	\$ 76,699	\$ 79,921
UMG's proportionate share of the net OPEB liability as a percentage of its covered payroll	243.08%	326.46%	405.34%	371.00%	260.27%	246.72%	234.88%
Plan fiduciary net position (assets)	\$ 2,240,138	\$ 2,199,545	\$ 1,537,194	\$ 1,196,008	\$ 849,889	\$ 542,342	\$ 340,618
Plan fiduciary total OPEB liability	\$ 17,738,337	\$ 21,726,989	\$ 25,078,100	\$ 21,878,399	\$ 18,114,287	\$ 17,904,922	\$ 17,583,045
Plan fiduciary net position as a percentage of the total OPEB liability	12.63%	10.12%	6.13%	5.47%	4.69%	3.03%	1.94%

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF UMG'S OPEB CONTRIBUTION

	2023	2022	2021	2020	2019	2018	2017	2016
	<i>(dollars in thousands)</i>							
Contractually required contribution	15,212	\$ 13,176	\$ 13,362	\$ 13,005	\$ 10,902	\$ 9,396	\$ 7,274	\$ 6,626
Contributions in relation to the contractually required contribution	<u>15,212</u>	<u>13,176</u>	<u>13,362</u>	<u>13,005</u>	<u>10,902</u>	<u>9,396</u>	<u>7,274</u>	<u>6,626</u>
Contribution deficiency (excess)	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
UMG's covered payroll	107,583	\$ 99,070	\$ 92,070	\$ 87,096	\$ 80,717	\$ 77,725	\$ 76,699	\$ 79,921
Contributions as a percentage of covered payroll	14.14%	13.30%	14.51%	14.93%	13.51%	12.09%	9.48%	8.29%

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

NOTES TO REQUIRED SCHEDULES

Key Actuarial Assumptions

Inflation: 2.50%

Salary Increase: 3.0% to 11.5%

Discount rate: 3.90% as of June 30, 2022

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

SCHEDULE OF ANNUAL MONEY-WEIGHTED RATES OF RETURN – OPEB PLAN

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

Annual money-weighted rates of return net of investment expense	2022	2021	2020	2019	2018	2017	2016	2015	2014
OPEB Fund	-7.40%	24.61%	2.13%	6.62%	5.85%	11.83%	2.44%	3.44%	11.80%

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