THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

(With Management's Discussion and Analysis)

JUNE 30, 2021 AND 2020

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONTENTS

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the consolidated financial position and activities of The University of Connecticut Health Center Finance Corporation and Subsidiaries (the Finance Corporation) as of and for the years ended June 30, 2021, 2020, and 2019. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the notes thereto, which follow this section.

The Finance Corporation functions as a service organization for the University of Connecticut Health Center (UConn Health) and its constituent units including John Dempsey Hospital (the Hospital) and UConn Medical Group (UMG). The Finance Corporation mainly provides contracting, real estate, and pharmaceutical sales to clinical patients for UConn Health.

This annual report consists of management's discussion and analysis and the consolidated financial statements. The basic financial statements (consolidated statements of net position, consolidated statements of revenues, expenses, and changes in net position, and consolidated statements of cash flows) present the financial position of the Finance Corporation and subsidiaries at June 30, 2021 and 2020, and the results of its operations and financial activities for the years then ended. These statements report information about the Finance Corporation using accounting methods similar to those used by private-sector companies. The consolidated statements of net position include all of the Finance Corporation's assets and liabilities. The consolidated statements of revenues, expenses, and changes in net position reflect the years' activities on the accrual basis of accounting, (i.e., when services are provided or obligations are incurred, not necessarily when cash is received or paid). These consolidated statements report the Finance Corporation's net position and how it has changed. Net position (the difference between assets and liabilities) is one way to measure financial health or position. The consolidated statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, investing, and capital financing activities. The consolidated financial statements include notes that explain information in the consolidated financial statements and also provide more detailed data.

SUBSIDIARIES

The Finance Corporation is currently the sole member and parent to the University of Connecticut Health Center Finance Corporation Circle Road Corporation (Circle Road Corporation). Circle Road Corporation's primary purpose is to serve as the financing vehicle for the Outpatient Pavilion (OP). Circle Road Corporation is a 501(c) 3 entity.

The Finance Corporation is also the sole member and parent to the UConn Health Pharmacy Services, Inc. (UHPSI), which is a Connecticut non-stock corporation that operates within the meaning of Section 115 of the Internal Revenue Code. UHPSI provides pharmacy services to UConn Health's constituent units, including UMG. Beginning in fiscal year 2021, UHPSI began providing pharmaceuticals to outpatients primarily from the various clinics related to UConn Health.

FINANCIAL HIGHLIGHTS

The Finance Corporation's financial position at June 30, 2021, 2020, and 2019, included assets of $220.4 million, $223.5 million, and $224.9 million, respectively, and liabilities of $190.5 million, $197.4 million, and $201.0 million, respectively. The value of both the assets and liabilities is attributable mainly to the Finance Corporation maintaining the real estate and related financing on the UConn Musculoskeletal Institute (formerly known as the Medical Arts and Research Building), 16 Munson Road (Munson Road), and the OP.

The Finance Corporation finished the current year with operating income of $2.8 million compared to operating income of $2.2 million in the prior year. Current year income increased due to the full year of expanded operations of UHPSI. UHPSI had operating income of $880,000 in 2021 compared to operating loss of approximately $630,000 in fiscal year 2020. Total Finance Corporation net position increased $3.8 million in fiscal 2021, compared to an increase of $2.2 million in fiscal 2020.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues 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. The impact of COVID-19 on the Finance Corporation and its subsidiaries has been fairly minor. Rents and mortgages were not impacted in fiscal 2021, other than the termination of one of Circle Road Corporation's rental agreements with one of its private tenants. In fiscal year 2021, UHPSI likely lost some revenue due to lower clinical volumes; however, the impact on the expanded business was undeterminable. In fiscal year 2020, Circle Road Corporation allowed for a three-month rent abatement for its private tenants due to the temporary closure of the OP. These rents were not part of the repayment of the mortgage for that building. Circle Road Corporation continued to make required debt payments throughout that time. In fiscal year 2020, UHPSI was impacted primarily by the reduction in clinical volumes and the expected related clinical pharmaceutical usage by UMG.

During the year ended June 30, 2021, Circle Road Corporation was awarded $1.0 million as proceeds for a successful business interruption insurance claim based on UMG's COVID-19 related losses exceeding the policy's deductible. The insurance policy was held by Circle Road Corporation for the OP. This amount was deposited into UConn Health and is to be paid to Circle Road Corporation during fiscal year 2022. These funds were returned to UMG via a $1.0 million rent credit for the year ended June 30, 2021. No future rental credits are anticipated.

FINANCIAL HIGHLIGHTS (CONTINUED)

Summarized components of the Finance Corporation's Statement of Net Position as of June 30, 2021, 2020, and 2019, are presented below.

	2021	2020	2019
		(In thousands)	
Summary of assets and liabilities at June 30:			
Current assets	$ 15,406	$ 16,229	$ 13,474
Deposits with vendors	2,054	--	--
Net investment in direct financing lease, net of current portion	178,943	182,548	185,951
Capital assets, net	23,966	24,714	25,468
Total assets	$ 220,369	$ 223,491	$ 224,893
Current liabilities	$ 19,396	$ 18,821	$ 13,950
Long-term liabilities	171,081	178,559	187,037
Total liabilities	$ 190,477	$ 197,380	$ 200,987
Net investment in capital assets	$ 27,944	$ 25,021	$ 22,245
Unrestricted (deficit)	1,948	1,090	1,661
Total net position	29,892	26,111	23,906
Total liabilities and net position	$ 220,369	$ 223,491	$ 224,893

Individual subsidiary income statements are presented as supplemental information to the consolidated financial statements. Changes in net position, representing the operating activity of the Finance Corporation, primarily composed of revenues and expenses associated with real estate transactions from Circle Road Corporation and the operations of UHPSI, are summarized below for the years ended June 30, 2021, 2020, and 2019:

	2021	2020	2019
		(In thousands)	
Summary of revenues, expenses, and nonoperating expenses for the year ended June 30:			
Operating revenues	$ 50,915	$ 21,207	$ 44,785
Operating expenses	(48,123)	(18,991)	(37,048)
Nonoperating revenue (expenses)	989	(11)	(11)
Increase in net position	$ 3,781	$ 2,205	$ 7,726

SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS

In this section, the Finance Corporation explains the reasons for those financial statement items with significant variances relating to fiscal year 2021 amounts compared to fiscal year 2020.

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets included the following:

- *Malpractice fund* – decreased from June 30, 2020 to June 30, 2021 by approximately $1.7 million due to funds paid related to a settlement in July 2020.

- *Pharmaceutical accounts receivable* – increased from June 30, 2020 to June 30, 2021 by approximately $2.3 million, as fiscal year 2021 is the first year of expanded operations of UHPSI, which now fills prescriptions for patients. Payments are received from various insurance companies subject to contracted rates.

- *Inventory* – increased from June 30, 2020 to June 30, 2021 by approximately $1.7 million, due to increased pharmaceutical inventory on hand for UHPSI as a result of its expanded operations during fiscal year 2021.

- *Net investment in direct financing lease* – decreased from June 30, 2020 to June 30, 2021 by approximately $3.4 million due to current year payment activity.

- *Deposits with vendors* – increased from June 30, 2020 to June 30, 2021 by approximately $2.1 million for required deposits with AmerisourceBergen, the primary pharmaceutical supplier used by the UHPSI.

Changes in liabilities included the following:

- *Due to/from related parties* – fluctuated from June 30, 2020 to June 30, 2021 by approximately $7.0 million primarily due to 340B revenue and supplier deposits due to the Hospital at June 30, 2021, which were offset by repayments received from UMG during the year ended June 30, 2021 for pharmaceuticals obtained from UHPSI.

- *Due to UConn Health – Malpractice fund* – decreased from June 30, 2020 to June 30, 2021 by approximately $1.7 million due to funds paid related to a settlement in July 2020.

- *Loans payable* – decreased from June 30, 2020 to June 30, 2021 by approximately $7.1 million due to the scheduled mortgage payments being made during fiscal year 2021.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues

Total operating revenues increased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $29.7 million or 140.1%. Significant operating variances are presented below.

- *Rental income* – decreased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $990,000 or 47.3%, as rental income for fiscal year 2021 included a rental credit of $1.0 million to UMG for OP rent related to the business interruption insurance claim awarded to Circle Road Corporation. Additionally, early termination of a third-party tenant lease in the OP resulted in a rental income reduction of approximately $15,000.

- *Contract and other income* – decreased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $6.5 million or 77.8% due to the termination of the State of Connecticut Department of Corrections (DOC) pharmacy contract with UHPSI in September 2019.

- *Pharmaceutical revenue* – increased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $37.4 million or 100%, due to UHPSI's first full year of expanded business operations, including filling patient prescriptions to outpatients primarily from UConn Health related clinics.

Operating expenses

Total operating expenses increased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $29.1 million or 153.4%.

- *Internal contractual support* – decreased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $759,000 or 50.3% due to the termination of the DOC pharmacy contract with UHPSI in September 2019. Amounts consisted of pharmacy personnel costs allocated from UConn Health. The average number of full-time employees allocated from UConn Health for fiscal years 2021 and 2020 was approximately 4 and 10, respectively.

- *Outside agency per diems* – increased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $2.8 million or 457.4% due to the utilization of support services from Shields Pharmacy of Connecticut II, LLC (Shields) related to the expanded business operations of UHPSI during fiscal year 2021.

- *Pharmaceuticals / medical supplies* – increased from the year ended June 30, 2020 to the year ended June 30, 2021 by approximately $27.5 million or 426.0% due to the expanded business operations of UHPSI during fiscal year 2021.

CAPITAL AND DEBT RELATED ACTIVITIES

The Teachers Insurance and Annuity Association of America (TIAA) mortgage for the OP is supported by a 25-year fixed term lease between UConn Health and the Finance Corporation. As a result, capital assets associated with the OP have been reclassified and reported as investment in direct financing lease. For additional information on capital assets and the breakout of the OP's underlying assets, see Notes 2 and 5.

The OP construction was completed in 2019. The project finished ahead of budget and Circle Road Corporation has closed out the additional funds held in trust to be used for additional site work and minor improvements. The Finance Corporation continues to rent the OP to UConn Health, which in turn subleases the space to related parties. Lease payments from UConn Health provide the funding for the Finance Corporation's OP mortgage payments. For the years ended June 30, 2021 and 2020, the Finance Corporation made all regularly scheduled payments on the mortgage, thereby reducing the principal amount of the secured mortgage on the OP by $5,535,524 and $5,276,127, respectively. For additional information on debt-related activities, see Note 3.

The Finance Corporation continues to own and rent the UConn Musculoskeletal Institute property to UConn Health. For the years ended June 30, 2021 and 2020, the Finance Corporation made all regularly scheduled payments on the UConn Musculoskeletal Institute's secured mortgage, thereby reducing the amount of secured mortgage principal debt on the UConn Musculoskeletal Institute by $1,568,443 and $1,472,336, respectively. For additional information on debt-related activities, see Note 3.

RELATED PARTIES

During fiscal years 2021 and 2020, UHPSI was charged the cost of pharmacy personnel and other operating expenses offset by charges to UConn Health for pharmaceuticals sold, totaling approximately $882,000 and $1.5 million, respectively. During fiscal years 2021 and 2020, UHPSI repaid UConn Health approximately $4.0 million and $-0-, respectively.

During fiscal years 2021 and 2020, UHPSI received pharmacy overhead revenue from the Hospital in the amount of approximately $1.8 million and $435,000, respectively. This was offset by current and prior year pharmaceuticals and supplies expenses totaling approximately $38,000 and $63,000, respectively. In fiscal year 2021, the Hospital allocated to UHPSI its share of UConn Health's institutional deposit with AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. The deposit was approximately $2.1 million at June 30, 2021. During fiscal years 2021 and 2020, UHPSI repaid the Hospital approximately $3.0 million and $-0-, respectively.

During fiscal years 2021 and 2020, UHPSI provided pharmaceuticals to UMG in the amount of approximately $5.7 million and $5.6 million, respectively. In return, UHPSI received $11.0 million and $-0- from UMG, respectively, in fiscal years 2021 and 2020.

RELATED PARTIES (CONTINUED)

In fiscal year 2020, the Finance Corporation received $2.9 million from UConn Health, the Hospital and UMG. The amounts allocated to each entity were approximately $2.1 million, $484,000, and $308,000, respectively. The $2.9 million represented the final settlement of balances from the Munson Road balloon payment made in fiscal year 2011.

During fiscal year 2020, the Finance Corporation repaid the Hospital approximately $4.7 million for prior years' advances.

During the year ended June 30, 2021, Circle Road Corporation was awarded $1.0 million as proceeds for a successful business interruption insurance claim based on UMG's COVID-19 related losses exceeding the policy's deductible. The insurance policy was held by Circle Road Corporation for the OP. This amount was deposited into UConn Health and is to be paid to Circle Road Corporation during fiscal year 2022. These funds were returned to UMG via a $1.0 million rent credit for the year ended June 30, 2021. No future rental credits are anticipated.

For additional information on related parties, see Note 4.

FISCAL YEAR 2022 OUTLOOK

The Finance Corporation was created by statute in recognition of UConn Health's need to implement decisions rapidly in order to provide excellent care in a competitive health care environment with a special focus on the need for expedited processes in the areas of purchasing, leasing, construction, and through joint ventures and shared service agreements with other organizations. The Finance Corporation also provides UConn Health with contracting efficiency and flexibility that is important to meeting the demands of modern healthcare. These services are an integral part of UConn Health's operations.

The Finance Corporation's economic position is closely tied to UConn Health's clinical entities serviced by the Finance Corporation. Through various rental agreements, UConn Health provides funding which enables the Finance Corporation to make its required debt and principal payments. In turn, these facilities allow for the Hospital and UMG to provide state of the art care in modern spaces. The addition of UHPSI provides another opportunity for the Finance Corporation to help clinical operations expand its offerings, adapt to changing insurance and pharmacy landscapes, and maximize financial resources.

FISCAL YEAR 2022 OUTLOOK (CONTINUED)

As we look forward to fiscal year 2022, UConn Health seeks to return its operational productivity to pre-COVID-19 pandemic levels, while adapting its business to meet the demands of the COVID-19 economy. While our newer facilities offer certain advantages, such as the ability to create negative pressure COVID-19 floors in the Hospital, the size and co-location of so many clinical specialties can pose their own challenges in an era of social distancing. UConn Health is also impacted by current and expected supply and labor shortages. The Finance Corporation's procurement and leasing capabilities provide UConn Health additional tools to strengthen its supply chain. In spite of existing challenges, UConn Health remains committed to providing the highest possible levels of care in the safest manner possible.

The Finance Corporation is dependent upon both the Hospital and UMG for the rental payments that support the Musculoskeletal Institute and OP mortgage payments. It also depends on its relationships with these entities to maximize UHPSI's business opportunities. COVID-19 had a significant impact upon UConn Health's clinical services, including a two-month closure during fiscal year 2020. Fiscal year 2021 saw a cautious re-opening, followed by significant increases in clinical volumes. During this time, UHPSI's sales began to rise, as the business expanded its 340B pharmacy sales. UConn Health's management expects these positive trends to continue.

In prior years, UConn Health received substantial federal support to help offset losses in its clinical operations. Both fiscal years 2020 and 2021 initially finished with operating deficits. These deficits were later funded through deficiency appropriations by the State of Connecticut (State). Additional amounts were requested and received in fiscal year 2022, partially through the State's allotment of ARPA funds. The COVID-19 pandemic, clinical operations growth and federal and state aid will all be focal points in the upcoming year and beyond; however, UConn Health does not anticipate any issues with making scheduled debt payments, lease payments, or meeting operational needs over the next year.

Initial financial projections for the State remain positive for the upcoming year. However, the potential impact of the changing economic climate may cause additional instability in the predictability of the State's support across UConn Health. Leadership remains diligent on seeking continued, appropriate cost reductions, while protecting the quality of care. Cuts in State support, reducing aid in original passed budgets, are possible depending on how the State's fiscal picture develops during the upcoming year.

If you have questions about this report or need additional financial information, please contact the Office of the Chief Financial Officer, University of Connecticut Health Center, Farmington, Connecticut 06030-3800.

INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
University of Connecticut Health Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Connecticut Health Center Finance Corporation (Finance Corporation or Company), a component unit of the State of Connecticut, as of and for the years ended June 30, 2021 and 2020, and the related notes to the consolidated financial statements, which collectively comprise Finance Corporation's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Finance Corporation as of June 30, 2021 and 2020, and the consolidated results of their operations and changes in net position, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as Management's Discussion and Analysis on pages 1 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Finance Corporation's basic financial statements. The consolidating information in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The consolidating information in Schedules I and II is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2021 consolidating information in Schedules I and II is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2021 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
December 13, 2021

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF NET POSITION

JUNE 30, 2021 AND 2020

	2021	2020
Assets		
Current Assets		
Cash	$ 7,104,513	$ 4,078,789
Malpractice fund	444,512	2,173,675
Pharmaceutical accounts receivable, net (Note 6)	2,278,442	--
Inventory	1,984,257	316,225
Construction escrow account (Note 1)	--	27,274
Due from John Dempsey Hospital (Note 4)	--	186,556
Due from UConn Medical Group (Note 4)	--	6,051,907
Net investment in direct financing lease, current portion (Note 5)	3,594,218	3,394,817
Total Current Assets	15,405,942	16,229,243
Noncurrent Assets		
Deposits with vendors (Note 1)	2,054,135	--
Net investment in direct financing lease, net of current portion (Note 5)	178,943,074	182,548,032
Capital assets, net (Note 2)	23,966,479	24,714,042
Total Noncurrent Assets	204,963,688	207,262,074
Total Assets	$ 220,369,630	$ 223,491,317

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2021 AND 2020

	2021	2020
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,329,960	$ 1,152,902
Due to UConn Health - Malpractice fund (Note 4)	444,512	2,173,675
Due to UConn Health (Note 4)	4,320,029	8,369,558
Due to John Dempsey Hospital (Note 4)	4,574,989	--
Due to UConn Medical Group (Note 4)	239,649	--
Advances for construction	6,619	6,619
Security deposits	2,229	14,329
Loans payable, current portion (Note 3)	7,478,498	7,103,967
Total Current Liabilities	19,396,485	18,821,050
Loans payable, net of current portion (Note 3)	171,081,105	178,559,603
Total Noncurrent Liabilities	171,081,105	178,559,603
Total Liabilities	190,477,590	197,380,653
Net Position		
Net investment in capital assets	27,944,168	25,020,595
Unrestricted net assets	1,947,872	1,090,069
Total Net Position	29,892,040	26,110,664
Total Liabilities and Net Position	$ 220,369,630	$ 223,491,317

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

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

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating Revenues		
Rental income	$ 1,104,074	$ 2,094,038
Interest income from direct financing lease	10,581,735	10,770,074
Contract and other income, net (Note 1)	1,851,832	8,342,674
Pharmaceutical revenue, net (Note 6)	37,377,134	--
Total Operating Revenues	50,914,775	21,206,786
Operating Expenses		
Professional services	141,255	31,900
Internal contractual support	750,619	1,509,133
Outside agency per diems	3,464,874	621,575
Pharmaceuticals/medical supplies	33,893,264	6,442,989
Rent	92,767	107,765
Equipment and software leases	131,789	229,256
Insurance	750	750
Repairs and maintenance	7,729	15,474
Interest expense	8,864,456	9,220,818
Depreciation	754,175	754,123
Other	20,679	57,628
Total Operating Expenses	48,122,357	18,991,411
Operating Income	2,792,418	2,215,375
Nonoperating Revenue (Expense)		
Insurance proceeds	1,000,000	--
Loan servicing fees	(11,042)	(11,042)
Total Nonoperating Revenue (Expense)	988,958	(11,042)
Increase in Net Position	3,781,376	2,204,333
Net Position - Beginning	26,110,664	23,906,331
Net Position - Ending	$ 29,892,040	$ 26,110,664

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash Flows from Operating Activities		
Cash paid to suppliers, contractors and others	$ (45,119,273)	$ (21,359,055)
Cash received for rental income	2,089,745	4,978,375
Cash received for pharmaceutical, contract and other income	35,206,842	13,189,782
Cash received from (returned to) related parties	3,980,717	(4,815,536)
Cash paid for administrative expenses	(25,252)	(33,900)
Net Cash Used in Operating Activities	(3,867,221)	(8,040,334)
Cash Flows from Investing Activities		
Payments for purchase of capital assets	(6,612)	--
Change in value of direct financing lease	10,740	7,751
Net Cash Provided by Investing Activities	4,128	7,751
Cash Flows from Capital Financing Activities		
Direct financing lease payments received (including $10,581,735 and $10,770,074 of interest, respectively)	13,976,552	13,976,552
Transfers from construction escrow account	27,274	4,500
Repayments of capital debt	(7,103,967)	(6,748,463)
Loan servicing fees	(11,042)	(11,042)
Net Cash Provided by Capital Financing Activities	6,888,817	7,221,547
Net Increase (Decrease) in Cash	3,025,724	(811,036)
Cash - Beginning	4,078,789	4,889,825
Cash - Ending	$ 7,104,513	$ 4,078,789

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating income	$ 2,792,418	$ 2,215,375
Depreciation	754,175	754,123
Direct financing lease interest payments received	(10,581,735)	(10,770,074)
Changes in operating assets and liabilities:		
Inventory	(1,668,032)	1,278,687
Pharmaceutical accounts receivable	(2,278,442)	--
Contract receivables	--	2,636,637
Deposits with vendors	(2,054,135)	--
Due to UConn Health	(3,049,529)	6,186,340
Due from UConn Medical Group	6,291,556	(5,294,519)
Accounts payable and accrued expenses, excluding payables for capital assets	1,177,058	(415,681)
Due to John Dempsey Hospital	4,761,545	(4,631,222)
Security deposits	(12,100)	--
Net Cash Used in Operating Activities	$ (3,867,221)	$ (8,040,334)
Schedule of Non-Cash Financing Transactions		
Change in mortgage proceeds held by Trustee in construction escrow account	$ 27,274	$ 4,500

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

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

REPORTING ENTITY

Effective July 1, 1987, The University of Connecticut Health Center Finance Corporation (the Finance Corporation or Company) was established pursuant to Public Act No. 87-458. The purpose of the Finance Corporation is to provide greater flexibility for John Dempsey Hospital (21002 Fund) (the Hospital), UConn Medical Group (UMG), and University Dentists (collectively, the entities) and to promote the more efficient provision of health care services. As such, the Finance Corporation has been empowered to purchase supplies and equipment; acquire facilities; approve write-offs of accounts receivable; negotiate joint ventures, shared service, and other agreements for all of the entities; and process malpractice claims on behalf of the University of Connecticut Health Center (UConn Health), the Hospital, UMG, and University Dentists.

The Finance Corporation is administered by a board of directors currently consisting of the President of the University of Connecticut, the Secretary of the Office of Policy and Management for the State of Connecticut, a member of the Board of Directors of UConn Health, the Executive Vice President for Health Affairs, and the Chairman of the Board of Trustees for the University of Connecticut, who is appointed by the Governor of the State of Connecticut or their designee. The Governor appoints one of these members as Chairman of the Board of the Finance Corporation.

The University of Connecticut Health Center Finance Corporation Circle Road Corporation (Circle Road Corporation), a subsidiary of the Finance Corporation, was formed pursuant to Section 10a-254 of the Connecticut General Statutes by the Finance Corporation (its sole member). This subsidiary corporation is administered by a board of directors elected on an annual basis by the sole member's board of directors or appointed by the Governor of the State of Connecticut, as prescribed in the bylaws of Circle Road Corporation. The number of directors shall be not less than three or more than ten, and 50% shall be members of the board of directors of the sole member or appointed by the Governor. At least one of these directors must be an Independent Director. There are four members of the subsidiary corporation's board of directors and five members of the sole member's board of directors.

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

REPORTING ENTITY (CONTINUED)

In 2018, the Finance Corporation created a wholly-owned subsidiary corporation, UConn Health Pharmacy Services, Inc. (UHPSI) pursuant to the authority granted by Section 10a-254 of the Connecticut General Statutes. The subsidiary's main focus is the provision of pharmacy operation services on behalf of UConn Health and its clinical units, including the Hospital and UMG. The subsidiary has been empowered to apply for and obtain all licenses, certificates or other credentials as required for pharmacy operations and granted the ability to enter into such contracts that are necessary or desirable for, or incidental to, the conduct of the subsidiary's business and affairs.

The sole member of UHPSI is the Finance Corporation (the Member). The Member has the power to elect and remove directors to/from UHPSI's Board of Directors. The property and affairs of UHPSI will be managed by or under the direction of UHPSI's Board of Directors.

In 2019, UHPSI commenced operations. UHPSI provides services for specialty prescriptions for patients within clinics associated with UConn Health. The expenses reported in the consolidated statements of revenues, expenses, and changes in net position include allocations from UConn Health for salary and fringe benefits for persons utilized in UHPSI. This is reported as internal contractual support. Otherwise, undetermined amounts for salaries, services, and expenses provided to and received from UConn Health and other Connecticut State agencies are not included in the consolidated statements of revenues, expenses, and changes in net position.

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

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

BASIS OF PRESENTATION

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

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

PROPRIETARY FUND ACCOUNTING

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

COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues 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. The impact of COVID-19 on the Finance Corporation and its subsidiaries has been fairly minor. During fiscal year 2020, Circle Road Corporation allowed for a three-month rent abatement for its private tenants due to the temporary closure of the Outpatient Pavilion (OP). During fiscal year 2021, one of the private tenants in the OP elected to terminate its lease. Circle Road Corporation continued to make required debt payments throughout that time. In fiscal year 2020, UHPSI was impacted primarily by the reduction in clinical volumes and the expected related clinical pharmaceutical usage by UMG. In fiscal year 2021, suppressed clinical volumes reduced the number of available prescriptions to be filled; however, the overall impact on UHPSI's expanded business was undetermined. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Finance Corporation's financial condition or results of operations is uncertain as of the date of this report.

USE OF ESTIMATES

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

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

CASH

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

CONTRACT AND OTHER INCOME

Contract and other income is recorded on the accrual basis of accounting in the period the related services were rendered.

During fiscal year 2020, contract revenue was primarily for pharmaceuticals provided to the State of Connecticut Department of Corrections (DOC) under a renewable, 6-month contract, which became effective July 1, 2018 and was terminated as of September 30, 2019. Revenue from the DOC in fiscal year 2020, net of discounts of approximately $120,000, was approximately $7.9 million, which was included in contract and other income on the 2020 consolidated statement of revenues, expenses, and changes in net position.

As described in Note 4, UHPSI provides pharmaceuticals to UMG, and records revenue on the accrual basis of accounting in the period the related services are rendered

Additionally, during fiscal year 2020, the Hospital pharmacy began allocating overhead revenue related to certain pharmaceutical sales to UHPSI on a monthly basis. This revenue is included in contract and other income on the consolidated statements of revenues, expenses, and changes in net position. The amount of overhead revenue allocated to UHPSI for fiscal years ended June 30, 2021 and 2020 were approximately $1.8 million and $435,000, respectively.

PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE

Beginning in fiscal year 2021, UHPSI expanded its business operations to include filling patient prescriptions to outpatients primarily from UConn Health related clinics.

A uniform pricing structure is used for billing to Pharmacy Benefit Managers (PBMs) subject to contractual allowances as negotiated by the Pharmacy Services Administrative Organization (PSAO). Contractual allowances will reduce the amount received and will vary based on rates, such as Medicare, Medicaid, and commercial contracts. Pharmaceutical revenues, net of contractual allowances and direct and indirect remuneration (DIR) fees, are recognized on the accrual basis of accounting when prescriptions are filled. Accounts receivable from patients, third-party payers, and others for pharmaceutical purchases represent the net amounts owed to UHPSI for which payment had not been received as of June 30, 2021.

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

UHPSI PHARMACY MANAGEMENT

UConn Health entered a five-year agreement with a third party, Shields Pharmacy of Connecticut II, LLC (Shields), for support services for UHPSI. These services include support for patient liaisons, medication adherence management, revenue cycle management and other services. These services are billed on a monthly basis.

The agreement includes a performance fee based on a specific profitability calculation as stipulated in the agreement. These fees are calculated and billed monthly.

340B PROGRAM

Section 340B of the Public Health Service Act requires pharmaceutical manufacturers participating in Medicaid to sell outpatient drugs at discounted prices to health care organizations that care for many uninsured and low-income patients. The Hospital qualifies as a covered entity (CE) under this provision. Therefore, the Hospital is qualified to receive 340B savings for certain pharmaceutical purchases, as the Hospital is a public entity classified as a Disproportionate Share Hospital (DSH) that serves a disproportionately higher percentage of Medicaid payers. When the patient establishes a relationship with the CE, the CE is then allowed to receive 340B savings.

UHPSI is a contract pharmacy for the Hospital and receives revenue for filling and dispensing 340B qualified pharmaceuticals to patients. The contract pharmacy fills and dispenses pharmaceuticals on behalf of the CE; therefore, UHPSI receives a dispensing fee for these transactions, as provided for in the agreement with the Hospital, and reimburses the Hospital for the total revenue less the dispensing fee.

INVENTORY

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

DEPOSITS WITH VENDORS

Beginning in fiscal year 2021, UHPSI was required to have approximately $2.1 million on deposit with AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. The deposit is based on a percentage of quarterly purchasing history from AmerisourceBergen. These deposits are non-interest bearing and are considered subject to the credit risk of the supplier.

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

DESCRIPTION OF LEASING ARRANGEMENTS

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

The OP lease, effected through the Circle Road Corporation, is a direct financing lease for both the OP building and associated equipment. Under this treatment, the underlying capital assets are reported as net investment in direct financing lease. The associated equipment will be depreciated over a maximum 10 year life, while the building will be depreciated over 40 years. The term of the lease is 25 years, as stipulated in the mortgage agreement with Teachers Insurance and Annuity Association of America (TIAA). At the conclusion of the lease, any residual amounts will revert to capital assets, net. The Finance Corporation reviews the estimated residual value of property leased under the direct financing lease on an annual basis. See Note 5 for additional information.

RENTAL INCOME AND INTEREST INCOME

Rental income on operating leases is recognized over the rental period by reference to the lease agreements. Interest income on the direct financing lease is recognized over the term of the lease to produce a constant, periodic rate of return on the net investment of the lease. Unearned income related to the direct financing lease is amortized over the lease term using the interest method.

MALPRACTICE FUND

The malpractice fund includes investments held on behalf of UConn Health and is offset by a Due to UConn Health – Malpractice fund on the consolidated statements of net position. The fund is invested in the State of Connecticut Short-Term Investment Fund (STIF). The STIF is an investment pool of high-quality, short-term money market instruments that is considered a “2a7-like” pool, which is excluded from the scope of GASB Statement No. 72, *Fair Value Measurement and Application*. The cost of the STIF approximates fair value. The Finance Corporation is responsible for the timely payment of malpractice fund claims. Therefore, the Finance Corporation monitors upcoming cash needs and holds an amount estimated for upcoming malpractice fund liabilities in its account. The claim liability is reflected on UConn Health’s financial statements.

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

CAPITAL ASSETS

Property and equipment acquisitions are recorded at cost. Betterments and major renewals are capitalized, and maintenance and repairs are expensed as incurred. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Buildings have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years. Assets acquired under capital leases and leasehold improvements are depreciated no longer than the lease term. Construction in progress is capitalized as costs are incurred during the construction phase, and depreciation will begin once the assets are placed in service.

CONSTRUCTION ESCROW ACCOUNT

The construction escrow account represents amounts advanced from TIAA to Wells Fargo Bank Northwest, N.A. (Trustee) for the financing of the OP construction project. Such amounts represent cash held by the Trustee that has not yet been drawn down fully by the Finance Corporation for construction expenses. During fiscal year 2021, Finance Corporation utilized the remaining balance of $27,274 from the construction escrow account toward the final costs related to completion of loan documents with the Trustee. Refer to Note 3 for additional information related to the debt.

ADVANCES FOR CONSTRUCTION

Advances for construction in the amount of $6,619 as of June 30, 2021 and 2020, represent the unused portion of bond proceeds that were received in March 1993 by the Finance Corporation, which are to be used for the Farm Hollow Building renovations.

NET POSITION

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

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The following GASB accounting pronouncements were adopted by the Finance Corporation during fiscal year 2021, none of which had a material impact on its financial statements: GASB Statement No. 84, *Fiduciary Activities* (GASB 84); GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89); GASB Statement No. 90, *Majority Equity Interests* (GASB 90); GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93); and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 97).

UPCOMING ACCOUNTING PRONOUNCEMENTS

The Finance Corporation is considering the impact on its financial statements of the following upcoming GASB accounting pronouncements: GASB Statement No. 87, *Leases* (GASB 87) effective for reporting periods beginning after June 15, 2021, in accordance with GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95); GASB Statement No. 91, *Conduit Debt Obligations* (GASB 91) effective for reporting periods beginning after December 15, 2021, in accordance with GASB 95; GASB Statement No. 92, *Omnibus 2020* (GASB 92) effective for fiscal years beginning after June 15, 2021 and reporting periods thereafter, in accordance with GASB 95; GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94) effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter; and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter.

NOTE 2 – CAPITAL ASSETS

Capital assets as of June 30, 2021 and 2020 consisted of the following:

	2021	2020
Buildings	$ 29,730,870	$ 29,730,870
Land	6,593,084	6,593,084
Equipment	25,293	18,681
	36,349,247	36,342,635
Less: accumulated depreciation	12,382,768	11,628,593
Capital assets, net	$ 23,966,479	$ 24,714,042

The remaining balance in the custodial construction escrow account was $-0- and $27,274 as of June 30, 2021 and 2020, respectively.

As described in Note 1, the OP is leased to UConn Health under the terms of a direct financing lease. The cumulative costs incurred as of June 30, 2021 and 2020 were $196,980,084 and $200,907,882, respectively. During the year ended June 30, 2021, equipment was retired, which decreased the direct financing lease costs to $196,980,084.

Capital assets and depreciation activity for the years ended June 30, 2021 and 2020 were as follows:

	2020	Additions	Deductions	2021
Buildings	$ 29,730,870	$ --	$ --	$ 29,730,870
Land	6,593,084	--	--	6,593,084
Equipment	18,681	6,612	--	25,293
Less: accumulated depreciation - Buildings	(11,614,642)	(753,298)	--	(12,367,940)
Less: accumulated depreciation - Equipment	(13,951)	(877)	--	(14,828)
	$ 24,714,042	$ (747,563)	$ --	$ 23,966,479

NOTE 2 – CAPITAL ASSETS (CONTINUED)

	2019	Additions	Deductions	2020
Buildings	$ 29,730,870	$ --	$ --	$ 29,730,870
Land	6,593,084	--	--	6,593,084
Equipment	18,681	--	--	18,681
Less: accumulated depreciation - Buildings	(10,861,342)	(753,300)	--	(11,614,642)
Less: accumulated depreciation - Equipment	(13,128)	(823)	--	(13,951)
	$ 25,468,165	$ (754,123)	$ --	$ 24,714,042

NOTE 3 – NONCURRENT LIABILITIES

The Finance Corporation has a loan agreement held by KeyBank Real Estate Capital (KeyBank), which financed the construction of the UConn Musculoskeletal Institute. The Finance Corporation through its subsidiary, the Circle Road Corporation, has a mortgage with TIAA, which financed the construction of the OP. Changes in long-term obligations for the years ended June 30, 2021 and 2020, respectively are as follows:

	June 30, 2020 Balance	Additions	Repayments	June 30, 2021 Balance	Amounts due within 1 year
Business-type activities:					
Notes from Direct Borrowings -					
KeyBank	$ 7,741,328	$ --	$ (1,568,443)	$ 6,172,885	$ 1,670,824
TIAA	177,922,242	--	(5,535,524)	172,386,718	5,807,674
	$ 185,663,570	$ --	$ (7,103,967)	$ 178,559,603	$ 7,478,498

	June 30, 2019 Balance	Additions	Repayments	June 30, 2020 Balance	Amounts due within 1 year
Business-type activities:					
Notes from Direct Borrowings -					
KeyBank	$ 9,213,664	$ --	$ (1,472,336)	$ 7,741,328	$ 1,568,443
TIAA	183,198,369	--	(5,276,127)	177,922,242	5,535,524
	$ 192,412,033	$ --	$ (6,748,463)	$ 185,663,570	$ 7,103,967

NOTE 3 – NONCURRENT LIABILITIES (CONTINUED)

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

	2021	2020
Secured mortgage - KeyBank, principal and interest payments began January 2004 and continue until November 2024, with interest at 6.34%.	$ 6,172,885	$ 7,741,328
Secured mortgage - TIAA, 25 year, 4.809% coupon. Principal and interest payments began on April 15, 2015 and will continue until March 15, 2040.	172,386,718	177,922,242
	$ 178,559,603	$ 185,663,570

The Finance Corporation's outstanding notes from direct borrowings related to business-type activities of $178,559,603 and $185,663,570 as of June 30, 2021 and 2020, respectively, are secured by the Musculoskeletal Institute building, the OP, the Leasehold (as to Land) and Fee (as to improvements) Mortgage, Security Agreement, Assignment of Lease and Rents and Fixture Filing. The outstanding notes from direct borrowings related to business-type activities contain a provision that in an event of default, outstanding amounts become immediately due.

NOTE 3 – NONCURRENT LIABILITIES (CONTINUED)

Debt service requirements on long-term debt at June 30, 2021 are as follows:

	Business-Type Activities: Notes from Direct Borrowings	
Year Ending June 30,	Principal	Interest
2022	$ 7,478,498	$ 8,506,542
2023	7,873,091	8,111,949
2024	8,288,840	7,696,199
2025	7,533,172	7,276,923
2026	7,036,815	6,934,037
2027-2031	40,726,442	29,127,818
2032-2036	51,771,874	18,082,385
2037-2040	47,850,871	4,539,824
	$ 178,559,603	$ 90,275,677

The Finance Corporation recorded interest expense of $8,864,456 and $9,220,818, respectively, during the years ended June 30, 2021 and 2020.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Finance Corporation enters into transactions for the benefit of UConn Health entities. In 2006, the Finance Corporation entered into transactions resulting in the acquisition of the UConn Musculoskeletal Institute and Munson Road properties. The Finance Corporation leases these buildings to entities from UConn Health under operating agreements that renew annually.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

The Circle Road Corporation has a 25-year direct financing lease with UConn Health, designed to facilitate the monthly debt service payments on its mortgage with TIAA. Effective April 2015, the Circle Road Corporation began charging rent to UConn Health's clinical enterprises, including the Hospital and UMG. The amounts allocated to each of UConn Heath's internal business units is determined based on the square footage and is subject to change.

Rental payments to be received under these agreements, which cover mortgage payments including principal, interest and services fees, over the next five years and thereafter are estimated to be as follows:

Year ending June 30,	Outpatient Pavilion (a)	UConn Musculoskeletal Institute
2022	$ 13,975,852	$ 2,020,230
2023	13,975,852	2,020,230
2024	13,975,852	2,020,230
2025	13,975,852	841,762
2026	13,975,852	--
Thereafter	192,167,963	--
	$ 262,047,223	$ 6,902,452

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

Listed in the tables below are material transactions with related parties and the component units of the Finance Corporation to show the changes in amounts due (to) from each entity as of June 30, 2021 and 2020. Certain transactions that were settled during the fiscal years with transfers, payments or cash receipts and did not result in a receivable or payable balance at June 30 have been excluded from these tables. The paragraphs that follow describe the related party transactions that are summarized in the aforementioned tables.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE TO UCONN HEALTH

	2021	2020
Due to UConn Health - Beginning Balance:	$ (8,369,558)	$ (2,183,218)
Finance Corporation:		
Cash received for rent	--	(2,094,987)
Circle Road Corporation:		
Insurance proceeds	1,000,000	--
Construction and other transactions	--	2,228
Cash paid for prior years' expenses	--	72,129
OP final loan settlement closeout expenses	(68,970)	--
UHPSI:		
Internal contractual support and other expenses, net of pharmaceuticals sold	(881,501)	(1,494,956)
Cash repayments to UConn Health	4,000,000	--
Cash received from DOC by UConn Health	--	(2,670,754)
Total Change in Due to UConn Health	4,049,529	(6,186,340)
Due to UConn Health - Ending Balance:	$ (4,320,029)	$ (8,369,558)

During the year ended June 30, 2021, Circle Road Corporation was awarded $1.0 million as proceeds for a successful business interruption insurance claim based on UMG's COVID-19 related losses exceeding the policy's deductible. The insurance policy was held by Circle Road Corporation for the OP. This amount was deposited into UConn Health and is to be paid to Circle Road Corporation during fiscal year 2022. These funds were returned to UMG via a $1.0 million rent credit for the year ended June 30, 2021. No future rental credits are anticipated. Also, during fiscal year 2021, the final loan settlement was made for the OP. UConn Health paid a portion of these costs in the amount of $68,970 on behalf of Circle Road Corporation. During fiscal year 2020, Circle Road Corporation repaid UConn Health for prior years' advances net of current year activity of approximately $72,000.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE TO UCONN HEALTH (CONTINUED)

During fiscal year 2021 and 2020, UHPSI incurred the cost of pharmacy personnel and other operating expenses offset by pharmaceutical revenues from sales to UConn Health, netting to an increase in the amount owed to UConn Health by approximately $882,000 and $1.5 million, respectively. During the years ended June 30, 2021 and 2020, UHPSI repaid UConn Health $4.0 million and $-0-, respectively.

DUE (TO) FROM JOHN DEMPSEY HOSPITAL

	2021	2020
Due from (to) John Dempsey Hospital - Beginning Balance:	$ 186,556	$ (4,444,666)
Finance Corporation:		
Cash received for rent	--	(483,793)
Cash paid to John Dempsey Hospital for advances	--	4,743,408
UHPSI:		
Deposits with vendors	(2,054,135)	--
Pharmaceuticals and other expenses	(38,000)	(63,250)
340B revenue	(7,498,431)	--
Cash repayments	3,000,000	--
Pharmacy overhead revenue	1,829,021	434,857
Total Change in Due from John Dempsey Hospital	(4,761,545)	4,631,222
Due (to) from John Dempsey Hospital - Ending Balance:	$ (4,574,989)	$ 186,556

During fiscal year 2020, the Finance Corporation repaid the Hospital approximately $4.7 million for prior year advances and received rental income from the Hospital of approximately $484,000. There were no such amounts during the year ended June 30, 2021.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE (TO) FROM JOHN DEMPSEY HOSPITAL (CONTINUED)

During fiscal years 2021 and 2020, UHPSI received pharmacy overhead revenue from the Hospital in the amount of approximately $1.8 million and $435,000, respectively. This was offset by current and prior year pharmaceutical expenses and supplies, totaling approximately $38,000 and $63,000, respectively. In fiscal year 2021, UHPSI was allocated its share of a deposit to AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI, from the Hospital for funds required to be on deposit in the amount of approximately $2.1 million.

During fiscal years 2021 and 2020, UHPSI repaid the Hospital $3.0 million and $-0-, respectively.

Beginning in fiscal year 2021, UHPSI began transactions with the Hospital for 340B pharmaceutical sales. The amount of payments received by UHPSI for 340B sales was approximately $8.8 million. The amount due to the Hospital pharmacy, less dispensing fees of approximately $1.3 million, was approximately $7.5 million at June 30, 2021.

DUE (TO) FROM UMG

	2021	2020
Due from UConn Medical Group - Beginning Balance:	$ 6,051,907	$ 757,388
Finance Corporation:		
Cash received for rent	--	(307,785)
Circle Road Corporation:		
Rental credit	(1,000,000)	--
UHPSI:		
Pharmaceuticals charged back to UConn Medical Group	5,708,444	5,602,304
Cash received from UConn Medical Group	(11,000,000)	--
Total Change in Due from UConn Medical Group	(6,291,556)	5,294,519
Due (to) from UConn Medical Group - Ending Balance:	$ (239,649)	$ 6,051,907

During fiscal year 2021 and 2020, UHPSI provided pharmaceuticals to UMG in the amount of approximately $5.7 million and $5.6 million, respectively. Pharmaceutical expense to UMG is recorded as a chargeback from UHPSI. During the years ended June 30, 2021 and 2020, UMG repaid UHPSI $11.0 million and $-0-, respectively.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE TO UCONN HEALTH - MALPRACTICE FUND

	2021	2020
Due to UConn Health - Malpractice Fund - Beginning Balance:	$ (2,173,675)	$ (357,022)
Cash transfers including interest from UConn Health	(3,201,041)	(4,505,699)
Payments on behalf of UConn Health	4,930,204	2,689,046
Total Change in Due to UConn Health - Malpractice Fund	1,729,163	(1,816,653)
Due to UConn Health - Malpractice Fund - Ending Balance:	$ (444,512)	$ (2,173,675)

Balances at fiscal year end for the Malpractice fund can fluctuate based on funding needs for payments. The amounts due to UConn Health – Malpractice fund at June 30, 2020 was higher due to a payment that was made in July 2021. The amounts due to UConn Health – Malpractice fund at June 30, 2021 and 2020 were approximately $445,000 and $2.2 million, respectively.

NOTE 5 – INVESTMENT IN DIRECT FINANCING LEASE

The OP lease, created through the Circle Road Corporation, is a non-cancellable 25-year lease supporting the repayment of the TIAA mortgage. As such, this lease is classified as a direct financing lease. Under this treatment, the underlying capital assets are not recorded separately on the consolidated statements of net position, but the Finance Corporation records its net investment in direct financing lease. The components of the net investment in direct financing lease are shown below as of June 30, 2021 and 2020.

	2021	2020
Net minimum lease payments receivable	$ 262,060,349	$ 276,036,901
Estimated residual value of leased property (unguaranteed)	65,861,269	65,861,269
Less unearned income	(145,384,326)	(155,955,321)
Net investment in direct financing lease	$ 182,537,292	$ 185,942,849

NOTE 5 – INVESTMENT IN DIRECT FINANCING LEASE (CONTINUED)

The following schedule provides an analysis of the Circle Road Corporation's cost of the property held for lease under the direct financing lease as of June 30, 2021 and 2020.

	2021	2020
Building	$ 182,613,585	$ 182,613,585
Equipment	14,262,148	18,189,946
Art	104,351	104,351
	$ 196,980,084	$ 200,907,882

The associated equipment has a maximum useful life of 10 years, while the building has a useful life of 40 years. The term of the lease is 25 years, as stipulated in the mortgage agreement with TIAA. At the conclusion of the lease, any residual amounts will revert to capital assets.

NOTE 6 – PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE

As disclosed in Note 1, beginning in fiscal year 2021, UHPSI expanded its business operations to include filling patient prescriptions to outpatients primarily from UConn Health related clinics.

Pharmaceutical revenues reported net of contractual allowances, DIR fees, and bad debt for the year ended June 30, 2021 were:

Gross pharmaceutical revenue	$ 49,356,197
Less: contractual allowances, DIR fees, bad debt	(11,979,063)
Net pharmaceutical revenues	$ 37,377,134

NOTE 6 – PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE (CONTINUED)

SIGNIFICANT CONCENTRATIONS

In fiscal year 2021, revenue received by UHPSI for Medicare was approximately 22.0%, revenue received by UHPSI for Medicaid was approximately 61.3%, and revenue received by UHPSI for commercial payers was approximately 16.7%.

As of June 30, 2021, pharmaceutical accounts receivable included approximately 24.3% due from Medicare, approximately 50.7% due from Medicaid, and approximately 25.0% due from commercial insurance.

NOTE 7 – SUBSEQUENT EVENTS

The Finance Corporation has evaluated subsequent events through December 13, 2021, which represents the date the financial statements were available to be issued. The following matters were noted:

In November 2021, UMG paid UHPSI approximately $760,000 toward its outstanding balance at June 30, 2021. Additionally, in November 2021, UConn Health paid Circle Road Corporation $1.0 million for the business interruption insurance claim, and in December 2021, Circle Road Corporation paid $1.0 million to UMG related to the rent credit described in Note 4.

In December 2021, approximately $3.3 million and $4.1 million was paid by UHPSI to the Hospital and UConn Health, respectively, toward the balances outstanding at June 30, 2021, as described in Note 4.

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

MARCUM
ACCOUNTANTS ▲ ADVISORS

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

Joint Audit and Compliance Committee
University of Connecticut Health Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The University of Connecticut Health Center Finance Corporation (the Company), which comprise the consolidated statement of net position as of June 30, 2021, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2021.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Hartford, CT
December 13, 2021

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

SCHEDULE I – CONSOLIDATING STATEMENT OF NET POSITION

JUNE 30, 2021

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Assets				
Current Assets				
Cash	$ --	$ --	$ 7,104,513	$ 7,104,513
Malpractice fund	444,512	--	--	444,512
Pharmaceutical accounts receivable, net	--	--	2,278,442	2,278,442
Inventory	--	--	1,984,257	1,984,257
Due (to) from subsidiaries	(651,084)	547,806	103,278	--
Net investment in direct financing lease, current portion	--	3,594,218	--	3,594,218
Total Current Assets	(206,572)	4,142,024	11,470,490	15,405,942
Noncurrent Assets				
Deposits with vendors	--	--	2,054,135	2,054,135
Net investment in direct financing lease, net of current portion	--	178,943,074	--	178,943,074
Capital assets, net	23,956,014	--	10,465	23,966,479
Total Noncurrent Assets	23,956,014	178,943,074	2,064,600	204,963,688
Total Assets	$ 23,749,442	$ 183,085,098	$ 13,535,090	$ 220,369,630

See independent auditors' report.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

SCHEDULE I - CONSOLIDATING STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2021

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Liabilities and Net Position				
Current Liabilities				
Accounts payable and accrued expenses	$ 75,190	$ 352,632	$ 1,902,138	$ 2,329,960
Due to UConn Health – Malpractice fund	444,512	--	--	444,512
Due (from) to UConn Health	--	(931,030)	5,251,059	4,320,029
Due to John Dempsey Hospital	--	--	4,574,989	4,574,989
Due to (from) UConn Medical Group	--	1,000,000	(760,351)	239,649
Advances for construction	6,619	--	--	6,619
Security deposits	--	2,229	--	2,229
Loans payable, current portion	1,670,824	5,807,674	--	7,478,498
Total Current Liabilities	2,197,145	6,231,505	10,967,835	19,396,485
Noncurrent Liabilities				
Loans payable, net of current portion	4,502,061	166,579,044	--	171,081,105
Total Noncurrent Liabilities	4,502,061	166,579,044	--	171,081,105
Total Liabilities	6,699,206	172,810,549	10,967,835	190,477,590
Net Position				
Net investment in capital assets	17,783,129	10,150,574	10,465	27,944,168
Unrestricted (deficit)	(732,893)	123,975	2,556,790	1,947,872
Total Net Position	17,050,236	10,274,549	2,567,255	29,892,040
Total Liabilities and Net Position	$ 23,749,442	$ 183,085,098	$ 13,535,090	$ 220,369,630

See independent auditors' report.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

SCHEDULE II - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2021

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Operating Revenues				
Rental income	$ 2,020,230	$ (916,156)	$ --	$ 1,104,074
Interest income from direct financing lease	--	10,581,735	--	10,581,735
Contract and other income, net	--	--	1,851,832	1,851,832
Pharmaceutical revenue, net	--	--	37,377,134	37,377,134
Total Operating Revenues	2,020,230	9,665,579	39,228,966	50,914,775
Operating Expenses				
Professional services	42,799	98,456	--	141,255
Internal contractual support	--	--	750,619	750,619
Outside agency per diems	--	--	3,464,874	3,464,874
Pharmaceuticals/medical supplies	--	--	33,893,264	33,893,264
Rent	--	--	92,767	92,767
Equipment and software leases	--	--	131,789	131,789
Insurance	--	--	750	750
Repairs and maintenance	--	--	7,729	7,729
Interest expense	440,220	8,424,236	--	8,864,456
Depreciation	753,300	--	875	754,175
Other	--	14,040	6,639	20,679
Total Operating Expenses	1,236,319	8,536,732	38,349,306	48,122,357
Operating Income	783,911	1,128,847	879,660	2,792,418
Nonoperating Revenue (Expense)				
Insurance proceeds	--	1,000,000	--	1,000,000
Loan servicing fee	(6,042)	(5,000)	--	(11,042)
Net Nonoperating (Expense) Revenue	(6,042)	995,000	--	988,958
Increase in Net Position	777,869	2,123,847	879,660	3,781,376
Net Position - Beginning	16,272,367	8,150,702	1,687,595	26,110,664
Net Position - Ending	$ 17,050,236	$ 10,274,549	$ 2,567,255	$ 29,892,040

See independent auditors' report.