UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

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

JUNE 30, 2020 AND 2019

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

CONTENTS

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

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 John Dempsey Hospital (21002 Fund) (the Hospital) as of and for the years ended June 30, 2020, 2019, and 2018. The Hospital is operated as a separate, identifiable unit of the University of Connecticut Health Center (UConn Health). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Through the Hospital (a licensed acute care hospital with 234 certified general acute care beds, 186 staffed), UConn Health provides specialized and routine inpatient and outpatient services. The Hospital also provides comprehensive healthcare services for Connecticut's incarcerated inmates. Historically, the contracts were with the Correctional Managed Health Care (CMHC) program. However, effective July 1, 2018, CMHC was dissolved. The Hospital continues to provide services through a variety of contracts with the State of Connecticut's (State) Department of Correction (DOC). The Hospital has long been regarded as the premier facility in the region for high-risk maternity services. It is also recognized for its cardiovascular program (interventional cardiology and surgery), cancer, musculoskeletal, and behavioral mental health services. Additionally, the Hospital is home to the only Emergency Department in Connecticut's Farmington Valley.

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 for non-essential services. The Hospital elected to pause elective procedures on March 13, 2020 and they did not resume until May 20, 2020. As a result, the Hospital went from being favorable to budget in February 2020 to finishing the year significantly behind budget. The operating loss for the year is mainly attributable to the last three and a half months of the fiscal year from March 2020 to June 2020. Operating losses were caused primarily by lack of elective procedures, but also by increased operating costs resulting from the pandemic, including increases in personal protective equipment (PPE), enhanced cleaning and disinfection protocols, and increased operational costs to pivot patient care to telehealth and much of the non-clinical workforce to telecommuting. UConn Health continues to monitor the outbreak of COVID-19 and its impact on operations, financial position, cash flows, inventory, supply chains, patient trends, payments, and the industry in general, in addition to the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Hospital's results of operations is uncertain as of the date of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The largest portion of COVID-19 aid received during the fiscal year ended June 30, 2020 came from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a federal program. During 2020, the Hospital received $15.9 million via the CARES Act. The Hospital is also eligible for distributions for treating uninsured patients, though this population is not considered material. Funds received under this program carry reporting and other requirements not fully outlined by the federal government as of the date of these financial statements.

The Hospital, as part of UConn Health, is also eligible to apply for reimbursement of expenses under three additional funding mechanisms: the Federal Communications Commission (FCC) Telehealth program, Federal Emergency Management Agency (FEMA) and the Coronavirus Relief Fund (CRF). Under the FCC program, an extension of the CARES Act, the Hospital is eligible to recoup certain expenses related to the expansion of connected care services for patients at their homes or mobile locations in response to the COVID-19 pandemic. UConn Health is also eligible to submit expenditures incurred in responding to the public health emergency to FEMA for consideration, and UConn Health has obtained a commitment from the State as part of the CRF to assist with eligible pandemic related expenses not reimbursed by FEMA. No amounts were received in fiscal 2020 from FEMA, while $4.2 million had been earmarked for UConn Health from the State's Coronavirus Relief Fund as of June 30, 2020. The Hospital expects to receive reimbursement related to these programs in fiscal 2021.

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows) present the financial position of the Hospital at June 30, 2020 and 2019, and the results of its operations and its financial activities for the years then ended. These financial statements report information about the Hospital using accounting methods similar to those used by private-sector companies. The statements of net position include all of the Hospital's assets, liabilities, and deferred inflows and outflows. The statements of revenues, expenses, and changes in net position reflect the year's activities on the accrual basis of accounting (i.e., when services are provided or obligations are incurred, not necessarily when cash is received or paid).

These financial statements report the Hospital'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

The Hospital's financial position at June 30, 2020, consisted of assets of approximately $462.9 million, deferred outflows of approximately $325.9 million, liabilities of approximately $1,002.2 million (of which $929.4 million is related to GASB Statements No. 68 and 75), and deferred inflows of approximately $33.0 million. The Hospital's financial position at June 30, 2019, consisted of assets of approximately $506.1 million, deferred outflows of approximately $155.0 million, liabilities of approximately $760.0 million (of which $686.3 million is related to GASB Statements No. 68 and 75), and deferred inflows of approximately $21.3 million. Net position, which represents the residual interest in the Hospital's assets and deferred outflows after liabilities and deferred inflows are deducted, decreased by approximately $126.2 million from fiscal year 2019 to a net deficit position of approximately $246.4 million as of June 30, 2020.

The Hospital finished the year with an operating loss of $167.6 million compared to an operating loss of $77.2 million in the prior year. Current year losses include the effect of the Hospital recording its pro-rata share of expenses under GASB Statements No. 68 and 75 as discussed in note 10. These expenses reflect changes to the pension and other post employment benefits (OPEB) plans on a State level. The Hospital received net transfers from UConn Health of $25.1 million and $21.6 million in 2020 and 2019, respectively. Current year transfers included $75.2 million from UConn Health related to fringe benefit support offset by $50.1 million in transfers back to UConn Health to facilitate working capital needs. In 2019, UConn Health transferred $38.3 million related to fringe benefit support and the Hospital returned $16.8 million in working capital transfers. Total net position decreased by approximately $126.2 million in fiscal 2020, compared to a decrease of approximately $55.2 million in fiscal 2019.

FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF ASSETS AND LIABILITIES

Summarized components of the Hospital's Statement of Net Position as of June 30, 2020, 2019, and 2018 are presented below.

	2020	2019	2018
		(in thousands)	
Summary of assets, liabilities and net position at June 30:			
Current assets	$ 115,328	$ 137,471	$ 140,489
Other assets	278	2,177	3,547
Capital and intangible assets, net	347,278	366,457	386,359
Total assets	$ 462,884	$ 506,105	$ 530,395
Deferred amount for pensions	$ 146,293	$ 110,025	$ 116,697
Deferred amount for OPEB	179,581	45,019	32,891
Total deferred outflows	$ 325,874	$ 155,044	$ 149,588
Current liabilities	$ 61,263	$ 59,193	$ 68,479
Pension liabilities	382,720	305,945	287,396
OPEB liabilities	546,723	380,386	366,549
Capital leases	2,306	2,431	1,206
Accrued compensated absences, noncurrent portion	9,159	12,066	12,128
Total liabilities	$ 1,002,171	$ 760,021	$ 735,758
Deferred amount for pensions	$ 966	$ 1,061	--
Deferred amount for OPEB	32,022	20,265	9,209
Total deferred inflows	$ 32,988	$ 21,326	$ 9,209
Net investment in capital assets	$ 343,900	$ 363,182	$ 384,658
Unrestricted deficit	(590,301)	(483,380)	(449,642)
Total net position	$ (246,401)	$ (120,198)	$ (64,984)

FINANCIAL HIGHLIGHTS (CONTINUED)

SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS – ASSETS AND LIABILITIES

In this section, the Hospital explains the reasons for those financial statement items with significant variances relating to fiscal 2020 amounts compared to fiscal 2019 amounts.

Changes in assets included the following:

- *Inventory* – increased from June 30, 2019 to June 30, 2020 by approximately $2.0 million. In response to the pandemic, the Hospital increased certain strategic par and warehouse inventory. In addition, upon resumption of elective services, the Hospital carried higher values of certain biologics used in surgical procedures as it cleared its patient surgical backlog.

- *Contract and other receivables* – increased from June 30, 2019 to June 30, 2020 by approximately $1.5 million due to outstanding payroll owed for the contract between the Hospital and the Neonatal Intensive Care Unit (owned and operated by Connecticut Children's Medical Center) and expected 340b payments not received in June from Express Scripts and PharMerica.

- *Due from Other Funds* – increased from June 30, 2019 to June 30, 2020 by approximately $3.4 million mostly related to COVID-19 expenses from Central Administrative Services.

- *Due from State of Connecticut* – increased from June 30, 2019 to June 30, 2020 by approximately $3.2 million. Amounts due from the State of Connecticut represent the portion of the payroll accrual for employees charged to the State's general fund.

- *Due from Finance Corporation* – decreased from June 30, 2019 to June 30, 2020 by approximately $4.5 million due to repayment of prior advances from the Hospital.

- *Capital and intangible assets, net* – decreased from June 30, 2019 to June 30, 2020 by approximately $19.2 million as depreciation outpaced capital acquisitions during the current fiscal year.

FINANCIAL HIGHLIGHTS (CONTINUED)

SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS – ASSETS AND LIABILITIES (CONTINUED)

Changes in liabilities included the following:

- *Accounts payable and accrued expenses* – increased from June 30, 2019 to June 30, 2020 by approximately $1.8 million, which was caused by the timing of actual invoices processed by the Accounts Payable Department and checks being processed only twice a week due to administrative offices being shut down as a result of COVID-19.

- *OPEB liabilities* – increased by approximately $166.3 million from June 30, 2019 to June 30, 2020 due to changes in the Hospital's OPEB costs and lowering of the discount rate from 3.95% to 3.58%. This represents the Hospital's proportional share of the State's OPEB liability as actuarially determined based on the Hospital's percentage of overall contributions.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Summarized components of the Hospital's Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2020, 2019, and 2018 are presented below:

	2020	2019	2018
		(in thousands)	
Summary of revenues, expenses and transfers for the year ended June 30:			
Operating revenues	$ 464,342	$ 451,469	$ 439,576
Operating expenses	(631,976)	(528,669)	(466,898)
Operating Loss	(167,634)	(77,200)	(27,322)
Nonoperating revenue (expense), net	16,331	428	(464)
Loss before transfers	(151,303)	(76,772)	(27,786)
Net transfers	25,100	21,558	38,226
Cumulative effect of change in accounting principle	--	--	(331,254)
Decrease in net position	$ (126,203)	$ (55,214)	$ (320,814)

FINANCIAL HIGHLIGHTS (CONTINUED)

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

Operating revenues

Total operating revenues increased from the year ended June 30, 2019 to the year ended June 30, 2020 by approximately $12.9 million or 2.9%.

- *Net patient service revenues* – decreased by approximately $3.4 million or (0.8%) from prior year due to decreased volume in fiscal year 2020 mostly related to the temporary halt to elective procedures due to COVID-19.

- *Contract and other revenues* – increased by approximately $16.3 million or 35.9% from prior year, which was driven by increases in the Hemophilia clinic and 340b contract pharmacy agreements (340b drug contract). The 340b drug contract is a discount program created in 1992 by the U.S. federal government that requires drug manufacturers to provide outpatient drugs to eligible healthcare organizations at significantly reduced prices. The 340b drug contract came about as a result of changes in the 340b regulations that now allow qualified hospitals to contract with outside pharmacies to provide 340b priced drugs to the Hospital's outpatients. The Hospital is now partnering with area pharmacies to allow them to fill such prescriptions for outpatients.

Operating expenses

Total operating expenses increased from the year ended June 30, 2019 to the year ended June 30, 2020 by approximately $103.3 million or 19.5%.

- *Salaries and wages* – increased by approximately $29.4 million or 20.3% from prior year due to contractually bargained salary wage increases and an overall increase in full-time employees (FTEs). The Hospital had 1,747 and 1,706 total FTEs as of June 30, 2020 and 2019, respectively.

- *Fringe benefits* – increased by approximately $61.6 million or 43.9% from prior year due to charges associated with the Hospital recording its proportionate share of expenses under GASB Statements No. 68 and 75.

- *Pharmaceutical/medical supplies* – increased by approximately $11.7 million or 13.5% from prior year due to the cost of specialty drugs for the pharmacy department and increased surgical volumes prior to COVID-19.

FINANCIAL HIGHLIGHTS (CONTINUED)

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

- *Outside and other purchased services* – increased by approximately $7.8 million or 17.6% from prior year, mostly due to the Home Office allocation chargebacks and fees associated with 340b wire deposits. In 2019, the Hospital incurred approximately $3.9 million for EPIC implementation costs. The Hospital incurred no such expenses in the current year.

- *Other expenses* – decreased by approximately $11.2 million or 67.5% from prior year. In 2019, the Hospital wrote off approximately $14.9 million related to its EPIC implementation. The Hospital had no such write-offs in the current year.

SUMMARY OF CASH FLOWS

The statements of cash flows provide additional information about the Hospital's financial results by reporting the major sources and uses of cash. A summary of the statements of cash flows for the years ended June 30, 2020, 2019, and 2018 are as follows:

	2020	2019	2018
		(in thousands)	
Cash received from operations	$ 469,392	$ 454,881	$ 428,307
Cash expended for operations	(531,628)	(474,288)	(409,402)
Net cash (used in) provided by operations	(62,236)	(19,407)	18,905
Net cash used in investing activities	(4,763)	(3,737)	(40,384)
Net cash provided by noncapital financing activities	16,542	715	--
Net cash provided by capital and related financing activities	33,959	21,271	41,631
Net change in cash	(16,498)	(1,158)	20,152
Cash - Beginning	55,891	57,049	36,897
Cash - Ending	$ 39,393	$ 55,891	$ 57,049

Hospital discharges of 9,266 represent a decrease of 1,008 cases from 2019. Outpatient equivalents also decreased from the prior year. The Hospital's drop in volumes were driven by the halting of elective procedures due to COVID-19. The Hospital ceased elective procedures on March 13, 2020 and did not resume elective services until May 20, 2020.

FINANCIAL HIGHLIGHTS (CONTINUED)

CAPITAL AND INTANGIBLE ASSETS

At June 30, 2020, the Hospital had capital and intangible assets of $558.6 million before accumulated depreciation compared to $557.0 million at June 30, 2019. Capital leases increased by $1.1 million due to the Hospital entering into two new lease agreements. A summary of capital and intangible asset balances is shown in the table below:

	2020	2019	2018
		(in thousands)	
Land	$ 183	$ 183	$ 183
Construction in progress (estimated costs to complete of $1.9 million and $4.7 million at June 30, 2020 and 2019, respectively)	2,366	1,037	4,533
Buildings	398,992	397,090	393,281
Equipment	82,648	84,276	87,244
Computer software	57,061	58,158	65,604
Capital leases	17,359	16,264	14,084
Total Property, Plant and Equipment	558,609	557,008	564,929
Less accumulated depreciation and amortization	211,332	190,551	178,570
Capital and intangible assets, net	$ 347,277	$ 366,457	$ 386,359

For fiscal 2021, all UConn Health capital requests will be considered for funding on an individual basis. Capital requests will be considered by the senior executive committee of UConn Health. More detailed information about the Hospital's capital and intangible assets are presented in note 8 to the financial statements.

BIOSCIENCE CONNECTICUT

All construction work related to the Bioscience Connecticut and the Clinical Building Renovations was completed during the year ended June 30, 2019.

FISCAL 2021 OUTLOOK

As we look forward to fiscal year 2021, UConn Health is challenged to adapt its business to meet the demands of the COVID-19 economy. While our 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 and de-densifying. UConn Health remains committed to providing the highest possible levels of care in the safest manner possible.

FISCAL 2021 OUTLOOK (CONTINUED)

Research, education, and patient care remain the cornerstones of UConn Health's mission. These pillars remain as fundamental and relevant as ever. They also share in the uncertainty surrounding both local and national government funding. Federal, State, and local aid are more essential than ever in shepherding public institutions through the challenges of COVID-19. UConn Health has benefitted from federal CARES Act support during the current year and has received an additional allotment in fiscal 2021. These amounts, however, pale in comparison to the scale of losses from the cancellation of surgeries and other elective services. Continued funding, whether from the CARES Act, the CRF or other outside sources will be an important part of UConn Health's strategy moving forward while operations seek to return to normal.

UConn Health began fiscal 2020 in a position of strength and was projected well ahead of budget when COVID-19 hit. The impact of COVID-19 on operations was swift and pronounced. The temporary closure of non-essential services was a significant financial blow. The lack of clinical revenues caused UConn Health to realize large operating losses from March 2020 through the end of the year, resulting in a total loss across the system for which the Hospital has requested a deficiency appropriation. Clinical operations began to ramp up in May 2020 and have continued to improve over the first couple months of fiscal 2021. Even with increasing revenues, UConn Health does not anticipate returning to pre-COVID-19 clinical levels until the second half of fiscal 2021, making another operating loss likely. In addition to its request for a fiscal 2020 deficiency appropriation, UConn Health has alerted the Office of Policy and Management (OPM) that a similar appropriation will likely be needed for fiscal 2021. UConn Health has also applied for and received approximately $45.3 million in cash advances under the Medicare Advance program. Under this program, the Hospital will receive the cash up front and then pay it back via Medicare recouping amounts due for patient services.

Clinically, the focus is on safely returning to patient care while assuring patients that it is safe to do so. There is significant concern nationally about patients putting off care due to COVID-19 and its ultimate impact upon their health. UConn Health has worked diligently over the past six months to assure it has the required types and amounts of PPE, has upgraded its treatment protocols, and has proactively taken steps to ensure patient and staff safety across all its clinical units. At the same time, UConn Health has aggressively expanded its ability to provide telemedicine consults and visits, revamped its waiting rooms and arrival procedures, and has adapted its facilities to protect patient health. As a result, we have been able to continue monitoring patients and providing services.

Among the initiatives that UConn Health has implemented are testing of clinical staff and screening of staff and visitors (where allowed). UConn Health's employee testing has identified very few staff having contracted the virus reinforcing the effectiveness of our safety protocols.

FISCAL 2021 OUTLOOK (CONTINUED)

UConn Health also continued to make progress in its implementation of EPIC. In 2020, we completed our first substantial upgrades of the system, moving ahead 8 versions to the November 19 version. In 2021, we will move up again to the May 20 version. At the same time, significant progress was made in patient services reducing the backlog of old accounts, generating collections on funds owed, and cleaning up system processes to match operations. As a result, average monthly cash collections, even after the impact of COVID-19, were higher in fiscal 2020 than in fiscal 2019.

On July 31, 2017, the State Legislature approved the State Employees Bargaining Agent Coalition (SEBAC) 2017 agreement that was ratified by union membership. In addition, contracts were ratified for all of UConn Health bargaining units participating in SEBAC. The SEBAC 2017 agreement includes provisions for wage increases in fiscal 2021. Wage increases, along with the impact of unfunded pension and retiree health costs on the State's fringe benefit rates will add increased financial pressure on UConn Health. While UConn Health received $33.2 million to help offset these costs in fiscal 2020, the support lapsed and will need to be voted upon again for fiscal 2021. The SEBAC agreement also provides for certain employment protection for bargaining unit employees through June 30, 2021 reducing operational flexibility.

Continued economic pressures on the State may cause additional instability in the predictability of State support across UConn Health. Leadership remains diligent on seeking out continued, appropriate cost reductions and programmatic enhancements while protecting quality of care. Additional cuts in State support, beyond those in the original passed budget, are possible depending on how the State's fiscal picture develops during the upcoming year.

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

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
University of Connecticut Health Center

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Connecticut Health Center John Dempsey Hospital (21002 Fund) (the Hospital), an enterprise fund of the State of Connecticut, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Marcum LLP ▪ CityPlace I ▪ 185 Asylum Street ▪ 25th Floor ▪ Hartford, CT 06103 ▪ Phone 860.760.0600 ▪ Fax 860.760.0601 ▪ www.marcumllp.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Connecticut Health Center John Dempsey Hospital (21002 Fund) as of June 30, 2020 and 2019, and the results of its operations and changes in net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as Management's Discussion and Analysis on pages 1 through 11, the Schedule of Changes in the Hospital's Net Pension Liability and Related Ratios on page 58, the Schedule of Pension Contributions on page 59, the Schedule of Changes in the Hospital's Net OPEB Liability and Related Ratios on page 60, Schedule of the Hospital's Proportionate Share of the Net OPEB Liability on page 61 and the Schedule of the Hospital's OPEB Contributions on page 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020 on our consideration of the Hospital'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 Hospital'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 Hospital's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
November 30, 2020

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

STATEMENTS OF NET POSITION

JUNE 30, 2020 AND 2019

	2020	2019
Assets		
Current Assets		
Cash	$ 39,393,084	$ 55,890,658
Patient accounts receivable, net of estimated uncollectibles of $14,645,000 and $54,578,000 at June 30, 2020 and 2019, respectively	43,057,077	50,476,800
Inventory	11,907,825	9,944,770
Contract and other receivables	5,294,905	3,806,221
Due from State of Connecticut	3,193,464	--
Due from Other Funds	3,408,991	--
Due from UMG	194,548	5,529,552
Due from Finance Corporation, current portion	--	3,071,616
Prepaid expenses	8,878,387	8,751,795
Total Current Assets	115,328,281	137,471,412
Noncurrent Assets		
Other assets	277,991	803,469
Due from Finance Corporation, noncurrent portion	--	1,373,051
Capital and intangible assets, net (note 8)	347,277,333	366,456,931
Total Noncurrent Assets	347,555,324	368,633,451
Total Assets	462,883,605	506,104,863
Deferred Outflows of Resources		
Deferred amount for pensions (note 10)	146,293,132	110,025,631
Deferred amount for OPEB (note 10)	179,580,884	45,018,649
Total Deferred Outflows of Resources	$ 325,874,016	$ 155,044,280

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2020 AND 2019

	2020	2019
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 16,921,315	$ 15,091,606
Accrued payroll	10,896,055	8,933,388
Due to UConn Health Malpractice Fund	188,376	188,376
Due to State of Connecticut	4,699,689	6,615,246
Due to third-party payors	19,595,962	20,477,216
Due to Finance Corporation	186,556	--
Deferred revenues	4,419	4,419
Capital leases, current portion (note 9)	1,071,583	844,456
Accrued compensated absences, current portion (note 9)	7,698,814	7,038,021
Total Current Liabilities	61,262,769	59,192,728
Noncurrent Liabilities		
Pension liabilities (note 10)	382,719,634	305,945,549
OPEB liabilities (note 10)	546,723,069	380,385,790
Capital leases, net of current portion (note 9)	2,306,363	2,430,704
Accrued compensated absences, net of current portion (note 9)	9,158,672	12,066,269
Total Noncurrent Liabilities	940,907,738	700,828,312
Total Liabilities	1,002,170,507	760,021,040
Deferred Inflows of Resources		
Deferred amount for pensions (note 10)	966,353	1,061,209
Deferred amount for OPEB (note 10)	32,022,226	20,265,344
Total Deferred Inflows of Resources	32,988,579	21,326,553
Net Position		
Net investment in capital assets	343,899,387	363,181,771
Unrestricted deficit	(590,300,852)	(483,380,221)
Total Net Position	$ (246,401,465)	$ (120,198,450)

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating Revenues		
Net patient service revenues (note 5)	$ 402,585,016	$ 406,009,111
Contract and other revenues	61,756,615	45,459,344
Total Operating Revenues	464,341,631	451,468,455
Operating Expenses		
Salaries and wages	173,901,777	144,504,832
Fringe benefits	201,823,246	140,243,633
Medical/dental house staff	3,179,597	2,576,297
Medical contractual support	350,256	208,007
Internal contractual support	46,077,315	41,123,190
Outside agency per diems	3,558,107	4,651,617
Depreciation and amortization	24,941,235	25,582,380
Pharmaceutical/medical supplies	98,608,997	86,904,775
Utilities	5,519,017	3,364,654
Outside and other purchased services	52,303,568	44,492,702
Insurance	6,481,061	4,683,386
Repairs and maintenance	9,807,692	13,664,821
Other expenses	5,424,187	16,668,471
Total Operating Expenses	631,976,055	528,668,765
Operating Loss	(167,634,424)	(77,200,310)
Nonoperating Revenues (Expenses)		
Gift and endowment income	671,395	714,800
COVID-19 relief revenue	15,870,741	--
Interest expense	(114,855)	(49,606)
Loss on disposals	(95,839)	(236,826)
Net Nonoperating Revenues	16,331,442	428,368
Loss before Transfers	(151,302,982)	(76,771,942)
Transfers from UConn Health - Unrestricted (note 11)	75,201,378	38,342,420
Transfers to UConn Health (note 11)	(50,101,411)	(16,784,522)
Decrease in Net Position	(126,203,015)	(55,214,044)
Net Position - Beginning of year	(120,198,450)	(64,984,406)
Net Position - End of year	$ (246,401,465)	$ (120,198,450)

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 409,123,485	$ 405,185,644
Cash received from contract and other revenues	60,267,931	49,694,926
Cash paid to employees for salaries and fringe benefits	(297,174,524)	(243,239,984)
Cash paid for other than personnel services	(234,453,250)	(231,047,768)
Net Cash Used in Operating Activities	(62,236,358)	(19,407,182)
Cash Flows from Investing Activities		
Additions to property and equipment	(4,762,933)	(3,737,193)
Net Cash Used in Investing Activities	(4,762,933)	(3,737,193)
Cash Flows from Noncapital Financing Activities		
COVID-19 relief received	15,870,741	--
Gifts and endowment received	671,395	714,800
Net Cash Provided by Noncapital Financing Activities	16,542,136	714,800
Cash Flows from Capital and Related Financing Activities		
Interest paid	(114,855)	(49,606)
Transfer from UConn Health - Unrestricted	75,201,378	38,342,420
Transfer to UConn Health	(50,101,411)	(16,784,522)
Repayment from UMG	5,335,004	70,448
Cash received from Finance Corporation	4,631,223	298,741
Payments on capital leases	(991,758)	(605,954)
Net Cash Provided by Capital and Related Financing Activities	33,959,581	21,271,527
Net Change in Cash	(16,497,574)	(1,158,048)
Cash - Beginning	55,890,658	57,048,706
Cash - Ending	$ 39,393,084	$ 55,890,658
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Equipment acquired by entering into capital lease agreements	$ 1,094,544	$ 2,180,000

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Reconciliation to Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (167,634,424)	$ (77,200,310)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	24,941,235	25,582,380
Non-cash portion of pension expense	40,411,728	26,281,438
Non-cash portion of OPEB	43,531,927	12,766,651
Changes in operating assets and liabilities:		
Patient accounts receivable, net	7,419,723	(1,469,478)
Inventory	(1,963,055)	(774,723)
Contract and other receivables	(1,488,684)	6,657,620
Prepaid expenses	(126,592)	(1,553,214)
Other assets	525,478	--
Due from State of Connecticut	(3,193,464)	--
Due from Other Funds	(3,408,991)	--
Due to third-party payors	(881,254)	646,012
Accounts payable and accrued expenses	1,829,709	(12,054,455)
Due to State of Connecticut	(1,915,557)	1,387,476
Accrued payroll	1,962,667	636,890
Accrued compensated absences	(2,246,804)	(313,469)
Net Cash Used in Operating Activities	$ (62,236,358)	$ (19,407,182)

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

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

REPORTING ENTITY

The financial statements include those assets, deferred outflows, liabilities, deferred inflows, revenue, and expense accounts reflected in the accounting records of University of Connecticut Health Center John Dempsey Hospital (the Hospital), which are primarily accounted for in the 21002 Fund of the University of Connecticut Health Center (UConn Health). There are 21 members of the Board of Trustees of the University of Connecticut. Five serve as ex officio, voting members by virtue of other positions: The Governor is President of the Board, the Commissioners of Agriculture, Education, and Economic and Community Development are Board members, and the Chair of UConn Health's Board of Directors is a member. Two Board members are elected by alumni for four-year terms (and may be re-elected once, in succession). One undergraduate student is elected by undergraduates for a two-year term. One graduate or professional student is elected by graduate and professional students for a two-year term. Twelve members are appointed by the Governor, subject to confirmation by the General Assembly, for six-year terms, and may be reappointed without limit.

There are 18 members of the UConn Health Board of Directors. Three serve as ex officio voting members and serve concurrently with their positions: The Commissioner of Public Health, the Secretary or a designated under-secretary of the Office of Policy and Management, and the President of the University. All other terms are for three years and include: three members appointed by the Governor, three members appointed by the Chair of the Board of Trustees (two of which must be members of the Board of Trustees and one who serves as the Chair of the Board of Directors), and 9 at-large members appointed by the Board of Directors itself.

The Hospital is an enterprise fund of the State of Connecticut (the State) and is, therefore, generally exempt from federal income taxes under Section 115 of the Internal Revenue Code of 1986.

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 the Hospital and to promote 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 the Hospital's accounts receivable, process malpractice claims on behalf of the Hospital and UConn Health, as well as negotiate joint ventures, shared service, and other agreements for the benefit of the Hospital.

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

COVID-19

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 for non-essential services. The Hospital elected to pause elective procedures on March 13, 2020 and they did not resume until May 20, 2020. As a result, the Hospital went from being favorable to budget in February 2020 to finishing the year significantly behind budget. The increase in the operating loss for the year ended June 30, 2020 is mainly attributable to the last three and a half months of the fiscal year from March 2020 to June 2020. Increased operating losses were caused primarily by lack of elective procedures, but also by increased operating costs resulting from the pandemic and increases in personal protective equipment (PPE), enhanced cleaning and disinfection protocols, and increased operational costs to pivot patient care to telehealth and much of the non-clinical workforce to telecommuting. UConn Health continues to monitor the outbreak of COVID-19 and its impact on operations, financial position, cash flows, inventory, supply chains, patient trends, payments, and the industry in general, in addition to the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Hospital’s financial condition or results of operations is uncertain as of the date of this report. See notes 7 and 13 for additional details.

BASIS OF PRESENTATION

The Hospital’s financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements.

PROPRIETARY FUND ACCOUNTING

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

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

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, compensated absences, pension and OPEB liabilities, and third-party reimbursement reserves.

CASH

Cash includes cash held on behalf of the Hospital by the State.

ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUES

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

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 5 for additional information relative to third-party payor programs.

CONTRACT AND OTHER REVENUES

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

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

INVENTORY

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

CAPITAL ASSETS

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

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings (and related improvements) have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years. Assets acquired under capital leases and leasehold improvements are depreciated no longer than the lease term.

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

INTANGIBLE ASSETS

Intangible assets consist of capitalized computer software costs, including software internally developed. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development 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. Reference is made to note 8 for the gross costs capitalized and the accumulated amortization of capitalized computer costs.

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

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital 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 2020, the Hospital disposed of its previous Electronic Health Information Management and Bed Management systems, both replaced by EPIC. The combined value of these systems of approximately $1.6 million was reported in computer software and equipment in note 8. Both systems were fully depreciated and there was no loss on disposal. The Hospital also disposed of or traded in a number of smaller items, which resulted in a total loss on disposal of $95,839. None of these items were individually significant.

During 2019, the Hospital disposed of a voice recognition system in the amount of $297,078 and the loss on disposal was $97,677, and disposed of a number of other smaller items at a loss of $139,149.

RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Eligible employees of the Hospital, as defined, may participate in the following State retirement plans: the State Employees' Retirement System Tier I, Tier II, Tier IIA, 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 Hospital 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 Comprehensive Annual Financial Report.

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

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

RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

The Hospital 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). The Hospital continues to pay its portion of the State of Connecticut Employee OPEB Plan (SEOPEBP) on a pay-as-you-go basis, but has recorded its corresponding liability and deferred inflows and outflows as prescribed by GASB 75. See note 10 for additional details.

PENSION LIABILITIES

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

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

OPEB LIABILITIES

Individuals who are employed by the Hospital are eligible to participate in the State's group health plan and are also eligible to continue benefits upon retirement. Retirees under age 65 pay the same premium for medical, prescription drug 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. Hospital 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. The Hospital recorded its proportionate share of the net OPEB liability for the years ended June 30, 2020 and 2019.

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

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

COMPENSATED ABSENCES

The Hospital's employees earn vacation, personal, compensatory and sick time at varying rates depending on their collective bargaining units. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments at varying rates, depending on the employee's contract. Amounts recorded on the statements of net position are based on historical experience. Since adopting 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 information.

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

THIRD-PARTY PAYORS

Laws governing the Medicare and Medicaid programs are extremely complex and 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

Health care providers and support staff of the Hospital are fully protected by State Statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity are charged against UConn Health's malpractice self-insurance fund. UConn Health allocates an annual malpractice premium to the Hospital, designed to reflect an estimate of the current year's cash claims to be processed. For the years ended June 30, 2020 and 2019, annual premiums were approximately $4.1 million and $2.3 million, respectively. In 2020, additional premiums were paid from the Home Office allocation (see note 11). These premiums are included in insurance expense in the Hospital'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, 2020 and 2019, respectively.

NET POSITION

Net position is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any capital leases payable and 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.

REGULATORY MATTERS

The Hospital is required to file semi-annual and annual operating information with the State's Office of Strategy (OHS) and is required to file annual cost reports with Medicare.

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

RECLASSIFICATIONS

Certain reclassifications were made to the 2019 statement of revenues, expenses, and changes in net position related to the Home Office allocation, which allocated substantially all central administrative expenses to its separate business units, to conform to the current year presentation. Additional information related to the Home Office allocation is located in note 11. Reclassifications were also made to the 2019 statement of revenues, expenses, and changes in net position related to 340b fees and other revenues to conform to the current year presentation. Additional reclassifications were made to the 2019 statement of cash flows related to certain reclassifications of non-cash transactions for cash paid for other than personnel services.

NOTE 2 – RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

In June 2020, GASB issued Technical Bulletin No. 2020-1, *Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases*. The bulletin clarifies the application of the recognition requirements of GASB Statements No. 33, 56, and 70 to resources received from certain programs established by the CARES Act. The CARES Act was passed and signed into law in March 2020. The CARES Act provides resources for various programs including the Coronavirus Relief Fund (CRF), the Provider Relief Fund, and the Paycheck Protection Program. In addition, the bulletin clarifies the presentation of certain inflows of CARES Act resources and the additional unplanned outflows of resources incurred in response to a coronavirus disease. The requirements of this bulletin were effective immediately.

Based on the provisions in paragraph 15 of GASB Statement 33, as amended, a recipient government should recognize resources received from the CRF as liabilities until the applicable eligibility requirements are met, including the incurrence of eligible expenditures. When the recipient government has met the eligibility requirements established in the CARES Act, that government should recognize revenue for CRF resources received.

Certain CARES Act programs provide resources to address a government's loss of revenue attributable to the effects of COVID-19. Resources from the Provider Relief Fund can be used to address healthcare entities' loss of revenue. Resources received from CARES Act programs that specifically include an eligibility requirement for loss of revenue should be recognized as revenue when the government meets the action based eligibility requirement.

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT (CONTINUED)

Amendments to the CARES Act if enacted after a government's statement of net position date but prior to the issuance of financial statements, should be considered a nonrecognized subsequent event pursuant to GASB Statement 56, as amended. Any amendments to the CARES Act enacted subsequent to the statement of net position date will be considered in the financial statements for the reporting period in which the amendment was enacted.

See note 7 for additional details.

UPCOMING ACCOUNTING PRONOUNCEMENTS

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). The primary objective of the Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The Statement extended the effective dates of GASB 84 to reporting periods beginning after December 15, 2019. It also extended the effective date of GASB 87 to fiscal years beginning after June 15, 2021. The Statement also extended the effective dates of GASB 92 to fiscal years beginning after June 15, 2021.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). The principal objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement apply to all state and local governments. Governments should report fiduciary activities in the fiduciary fund financial statements of the basic financial statements. Fiduciary activities include both pension and OPEB activities. The Hospital is currently evaluating the impact this Statement will have on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). The objective of this Statement is to improve accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as deferred inflows of resources or deferred outflows of resources based on the payment provisions of the contract. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. The Hospital is currently evaluating the impact this Statement will have on its financial statements.

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

UPCOMING ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In January 2020, GASB issued Statement No. 92, *Omnibus 2020* (GASB 92). The objectives of this Statement are to enhance the comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing, and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The Hospital is currently evaluating the impact this Statement will have on its financial statements.

NOTE 3 – HYPOTHECATION

In accordance with State Statute, the Hospital can borrow from the State up to 90% of its net patient receivables and contract and other receivables to fund operations. As of June 30, 2020 and 2019, the Hospital had not drawn down any funds under the hypothecation. As of June 30, 2020 and 2019, the Hospital had available amounts of $43,516,784 and $48,854,719, respectively, under the State Statute.

NOTE 4 – CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During 2020 and 2019, the Hospital provided charity care services of $1,085,950 and $351,043, respectively. The estimated cost of these services was $319,812 and $105,348, respectively, for the years ended June 30, 2020 and 2019. No net patient service revenue was recorded for these services; however, expenses associated with these services are included in operating expenses.

NOTE 5 – NET PATIENT SERVICE REVENUES

The Hospital provides health care services primarily to residents of the region. Revenues from the Medicare program accounted for approximately 34% and 35% of the Hospital's net patient service revenues for the years ended June 30, 2020 and 2019, respectively. Revenues from the Medicaid program accounted for approximately 21% and 20% of the Hospital's net patient service revenues for the years ended June 30, 2020 and 2019, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in compliance 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 the Hospital.

Patient accounts receivable included approximately 23% and 34% due from Medicare and approximately 9% and 11% due from Medicaid at June 30, 2020 and 2019, respectively.

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

	2020	2019
Gross patient service revenues	$ 1,130,278,872	$ 1,166,755,095
Less contractual allowances and provision for bad debt	(727,693,856)	(760,745,984)
Net patient service revenues	$ 402,585,016	$ 406,009,111

NOTE 5 – NET PATIENT SERVICE REVENUES (CONTINUED)

SIGNIFICANT CONCENTRATIONS

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

MEDICARE

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Services to Medicare beneficiaries are paid based on a Prospective Payment System (PPS) based on the classification of each case into a Diagnostic-Related Group (DRG). Inpatient psychiatric services are also reimbursed via a PPS system established for inpatient psychiatric patients based on pre-determined hospital specific per diems.

The Hospital is reimbursed for Direct Graduate Medical Education (GME) and Medicare Bad Debts at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through fiscal year 2017.

MEDICAID

Inpatient services rendered to Medicaid program beneficiaries admitted prior to January 1, 2015 were reimbursed, in part, under the Tax Equity and Fiscal Responsibility Act (TEFRA) reimbursement methodology which provides for a cost-based reimbursement subject to a maximum target rate amount per discharge. Beginning January 1, 2015, Medicaid converted to an APR DRG Prospective Payment Methodology. The Hospital was reimbursed at an interim rate prior to January 1, 2015 with final settlement determined after submission of annual cost reports. Payments for inpatient services for patients admitted after January 1, 2015, have settlement distributions for GME and Case Mix Index withholds only. Outpatient services rendered to patients are reimbursed based on Medicaid Ambulatory Payment Classifications (APC). The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 2015.

NOTE 5 – NET PATIENT SERVICE REVENUES (CONTINUED)

SIGNIFICANT CONCENTRATIONS (CONTINUED)

MEDICAID (CONTINUED)

In 2020 and 2019, the Hospital received $8.2 million of supplemental payments from the Department of Social Services. These amounts are recorded as net patient service revenues in the statements of revenues, expenses and changes in net position.

COMMERCIAL INSURANCE AND MANAGED CARE

The Hospital has agreements with certain commercial insurance carriers and Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. In addition, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital'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 the Hospital's collection efforts. The Hospital'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, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies, and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

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

The Hospital 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 6 – CONTRACT AND OTHER REVENUES

The Hospital enters into contracts with external entities including hospitals, pharmacies, and other patient care entities. Other miscellaneous revenues, including revenues related the provision of staff and pharmacy supply services, are included in contract and other revenues in the statements of revenues, expenses, and changes in net position.

The Hospital has contracts to provide rental space and nursing resources to Connecticut Children's Medical Center (CCMC) in its operation of the Neonatal Intensive Care Unit (NICU) on the Hospital's campus. During the years ended June 30, 2020 and 2019, revenue related to the contract with CCMC's NICU totaled $15,506,419 and $15,489,299, respectively.

The Hospital's 340b discount program utilizes certain features of a 1992 act by the U.S. federal government that requires drug manufacturers to provide outpatient drugs to eligible healthcare organizations at significantly reduced prices. The 340b drug contract came about as a result of changes in the 340b regulations that now allow qualified hospitals to contract with outside pharmacies to provide 340b priced drugs to the Hospitals' outpatients. The Hospital now partners with area pharmacies to allow them to fill such prescriptions for outpatients. For the years ended June 30, 2020 and 2019, revenue related to the 340b contract totaled $31,591,176 and $17,429,848, respectively.

NOTE 7 – *COVID-19 RELIEF REVENUE*

The CARES Act was passed to mitigate the impact of the economic downturn set in motion by the global COVID-19 pandemic. Congress allocated $175 billion to provide financial relief during the COVID-19 pandemic to be allocated mainly through the Department of Health and Human Services (HHS). The Hospital qualified for both targeted and general distributions during the year ended June 30, 2020. The Hospital received funding from three different rounds, or tranches, of funding. The first tranche was based on previous Medicare payments and totaled approximately $6.5 million. The second tranche was based on total revenue from the Medicare Cost Report and totaled approximately $2.1 million. The final payment received in fiscal 2020 was received under the Safety Net distribution and totaled approximately $7.2 million. Criteria and reporting requirements for the Provider Relief Fund continue to be clarified and modified by HHS subsequent to June 30, 2020, and such criteria will be measured on a calendar year basis for the year ending December 31, 2020. Regardless of the changes to the criteria and the incomplete measurement period at June 30, 2020, management of the Hospital believes that eligibility requirements have been met for the complete amount received based on increased operating expenses and lost revenues. As such, the Hospital recognized the funds received as nonoperating revenues in the 2020 statement of revenues, expenses, and changes in net position.

NOTE 7 – *COVID-19 RELIEF REVENUE (CONTINUED)*

Certain of the COVID-19 relief programs require that the funds be utilized for lost revenues and COVID-related costs, and place limitations on the amounts that Hospitals can collect from COVID-19 patients.

Management's estimates of the amount of revenues recognized in fiscal 2020 could change materially in the future as the December 31, 2020 measurement period is completed and the regulations regarding the COVID-19 relief programs are modified in future periods. Any future adjustments to these estimates will be reported in the earnings of future periods.

NOTE 8 – CAPITAL AND INTANGIBLE ASSETS, NET

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

	2020	2019
Land	$ 183,137	$ 183,137
Construction in progress (estimated costs to complete of $1.9 million and $4.7 million at June 30, 2020 and 2019, respectively)	2,366,136	1,036,502
Buildings	398,991,857	397,090,426
Equipment	82,648,115	84,275,965
Computer software	57,060,942	58,157,753
Capital leases	17,358,788	16,264,244
	558,608,975	557,008,027
Less accumulated depreciation and amortization	211,331,642	190,551,096
Capital and intangible assets, net	$ 347,277,333	$ 366,456,931

NOTE 8 – CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

Activity for the years ended June 30, 2020 and 2019 is as follows:

	2019	Additions	Deductions	2020
Land	$ 183,137	$ --	$ --	$ 183,137
Construction in progress	1,036,502	3,320,859	(1,991,225)	2,366,136
Buildings	397,090,426	1,901,431	--	398,991,857
Equipment	84,275,965	1,351,295	(2,979,145)	82,648,115
Computer software	58,157,753	180,572	(1,277,383)	57,060,942
Capital leases	16,264,244	1,094,544	--	17,358,788
	$ 557,008,027	$ 7,848,701	$ (6,247,753)	$ 558,608,975

	2018	Additions	Deductions	2019
Land	$ 183,137	$ --	$ --	$ 183,137
Construction in progress	4,532,705	11,031,372	(14,527,575)	1,036,502
Buildings	393,281,287	3,809,139	--	397,090,426
Equipment	87,243,636	3,271,284	(6,238,955)	84,275,965
Computer software	65,604,169	152,973	(7,599,389)	58,157,753
Capital leases	14,084,244	2,180,000	--	16,264,244
	$ 564,929,178	$ 20,444,768	$ (28,365,919)	$ 557,008,027

Related information on accumulated depreciation and amortization for the years ended June 30, 2020 and 2019 is as follows:

	2019	Additions	Deductions	2020
Buildings	$ 108,088,981	$ 10,509,149	$ --	$ 118,598,130
Equipment	57,986,212	7,054,673	(2,883,306)	62,157,579
Computer software	11,612,900	6,365,198	(1,277,383)	16,700,715
Capital leases	12,863,003	1,012,215	--	13,875,218
	$ 190,551,096	$ 24,941,235	$ (4,160,689)	$ 211,331,642

NOTE 8 – CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

	2018	Additions	Deductions	2019
Buildings	$ 97,442,681	$ 10,646,300	$ --	$ 108,088,981
Equipment	56,444,667	7,641,351	(6,099,806)	57,986,212
Computer software	12,354,740	6,759,872	(7,501,712)	11,612,900
Capital leases	12,328,146	534,857	--	12,863,003
	$ 178,570,234	$ 25,582,380	$ (13,601,518)	$ 190,551,096

In 2019, the Hospital received transfers of capital assets from UConn Health in the amount of $3,094,667 related to capitalization of University Tower expenditures. The capital assets were transferred at the cost incurred by UConn Health which represented fair value on the date of the transfer. The Hospital did not receive any transfers related to University Tower expenditures for fiscal year 2020.

NOTE 9 – LONG-TERM LIABILITIES AND LEASES

Activity related to capital leases and compensated absences for the years ended June 30, 2020 and 2019 is as follows:

	June 30, 2019 Balance	Additions	Deductions	June 30, 2020 Balance	Amounts due within 1 year
Capital lease obligation - Payments including interest at 1.92% began November 2016 and continue until October 2021, collateralized by financed equipment	$ 998,761	$ --	$ (422,572)	$ 576,189	$ 430,757
Capital lease obligation - Payments including interest at 1.88% began January 2017 and continue until December 2021, collateralized by financed equipment	207,503	--	(81,834)	125,669	83,385
Capital lease obligation - Payments including interest at 3.00% began March 2019 and continue until February 2025, collateralized by financed equipment	2,068,896	--	(340,050)	1,728,846	350,393
Capital lease obligation - Payments including interest at 2.82% began October 2019 and continue until September 2025, collateralized by financed equipment	--	926,997	(127,323)	799,674	175,805
Capital lease obligation - Payments including interest at 1.85% began November 2019 and continue until October 2025, collateralized by financed equipment	--	167,547	(19,979)	147,568	31,243
Total Capital Leases	3,275,160	1,094,544	(991,758)	3,377,946	1,071,583
Total Accrued Compensated Absences	19,104,290	11,463,217	(13,710,021)	16,857,486	7,698,814
Total Long-Term Debt	$ 22,379,450	$ 12,557,761	$ (14,701,779)	$ 20,235,432	$ 8,770,397

NOTE 9 – LONG-TERM LIABILITIES AND LEASES (CONTINUED)

	June 30, 2018 Balance	Additions	Deductions	June 30, 2019 Balance	Amounts due within 1 year
Capital lease obligation - Payments including interest at 1.92% began November 2016 and continue until October 2021, collateralized by financed equipment	$ 1,413,304	$ --	$ (414,543)	$ 998,761	$ 422,572
Capital lease obligation - Payments including interest at 1.88% began January 2017 and continue until December 2021, collateralized by financed equipment	287,813	--	(80,310)	207,503	81,834
Capital lease obligation - Payments including interest at 3.00% began March 2019 and continue until February 2025, collateralized by financed equipment	--	2,180,000	(111,104)	2,068,896	340,050
Total Capital Leases	1,701,117	2,180,000	(605,957)	3,275,160	844,456
Total Accrued Compensated Absences	19,417,759	13,474,551	(13,788,020)	19,104,290	7,038,021
Total Long-Term Debt	$ 21,118,876	$ 15,654,551	$ (14,393,977)	$ 22,379,450	$ 7,882,477

Future minimum capital lease payments at June 30, 2020 are as follows:

Year ending June 30,	
2021	$ 1,173,061
2022	838,517
2023	649,986
2024	649,986
2025	332,196
Thereafter	--
Total minimum payments	3,643,746
Less: interest	(265,800)
Present value of capital leases	3,377,946
Less: current portion of capital leases	(1,071,583)
Noncurrent capital leases	$ 2,306,363

The Hospital also participates in operating lease agreements under UConn Health for which its departments are allocated expenses based on the square footage occupied. Total rent expense for the years ended June 30, 2020 and 2019 was $8,822,222 and $9,400,708, respectively, which is included in internal contractual support expense and outside and other purchased services expense in the statements of revenues, expenses and changes in net position.

NOTE 9 – LONG-TERM LIABILITIES AND LEASES (CONTINUED)

The Hospital leases space in the Outpatient Pavilion (OP) under a sublease from UConn Health. While the sublease is expected to be renewed on an annual basis, there is no written sublease that extends beyond a one-year period. UConn Health has leased the OP from the Finance Corporation under a direct financing lease that expires on March 31, 2040. The amount of rent expense that was charged to the Hospital was $7,127,880 and $7,341,478 in 2020 and 2019, respectively. Refer to note 11 for additional details regarding advances made by the Hospital to construct the OP.

The following is a schedule by year of existing future minimum lease payments under non-cancellable operating leases as of June 30, 2020, in addition to space in the OP through the sublease with UConn Health based on the assumption that the sublease will be extended annually through March 31, 2040:

Year ending June 30,	
2021	$ 8,006,358
2022	7,195,014
2023	7,161,511
2024	7,163,404
2025	6,567,129
Thereafter	87,862,711
	$ 123,956,127

NOTE 10 – PENSION AND OPEB PLANS

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

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION

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

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

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

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

SERS PLAN DESCRIPTION (CONTINUED)

The 2011 State Employee Bargaining Agent Coalition (SEBAC) Agreement changed the benefit multiplier for the portion of the benefit below the breakpoint from 1.33% to 1.40%.

This change was made effective for all active members who retire on or after July 1, 2013 in Tier II, IIA, and III, and the Hybrid Plan.

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

The pension liability recorded as of June 30, 2020 and 2019 was based on the June 30, 2019 and 2018 actuarial valuations, respectively.

CHANGES IN ASSUMPTIONS

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

CONTRIBUTIONS MADE

The Hospital'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 59.99%, 64.30%, and 56.58%, during fiscal years 2020, 2019, and 2018, respectively. The SERS contributions made compared to covered payroll follows:

	2020	2019	2018
Total Hospital payroll covered by SERS	$ 80,544,936	$ 65,848,032	$ 58,474,188
Total Hospital SERS contributions	$ 29,402,117	$ 26,308,399	$ 20,231,150
Contributions as a percentage of covered payroll	36.5%	40.0%	34.6%

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

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

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

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

At June 30, 2020 and 2019, the Hospital recorded a SERS related liability of $380.2 million and $304.0 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined based on the actuarial valuations performed as of June 30, 2019 and June 30, 2018, rolled forward based on plan experience. The Hospital's allocation of the net pension liability was based on the Hospital's percentage of total overall contributions to the plan during the 2019 and 2018 fiscal years. At June 30, 2019 and 2018, the Hospital's proportion of contributions was 1.67% and 1.40%, respectively.

For the years ended June 30, 2020 and 2019, the Hospital recognized SERS pension expense of $69.5 million and $52.3 million, respectively. The pension expense is reported in the Hospital's financial statements as part of fringe benefits expense.

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

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

At June 30, 2020 and 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the SERS plan from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)			
Changes in proportionate allocation of pension expense	$ 64,323	$ --	$ 38,303	$ --
Hospital contributions subsequent to measurement date	29,402	--	26,308	--
Net difference between projected and actual earnings on pension plan investments	--	(905)	--	(953)
Difference between expected and actual experience	25,835	--	10,732	--
Changes in assumptions	24,960	--	33,129	--
	$ 144,520	$ (905)	$ 108,472	$ (953)

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 5.58 years and 5.64 years for years ended June 30, 2020 and 2019, respectively.

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

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

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

Year ending June 30,	Change in proportionate participation in SERS plan	Net difference between projected and actual earnings on pension plan investments	Difference between expected and actual experience	Change in assumptions
	(in thousands)			
2021	$ 21,251	$ 366	$ 6,991	$ 12,537
2022	15,886	(1,775)	6,537	9,618
2023	12,354	175	5,264	1,451
2024	9,704	329	4,746	900
2025	5,128	--	2,297	454
	$ 64,323	$ (905)	$ 25,835	$ 24,960

The amortization of the aforementioned deferred inflows and deferred outflows increased fringe benefits expense by $40,111,289 and $26,024,771 during the years ended June 30, 2020 and 2019, respectively.

ACTUARIAL METHODS AND ASSUMPTIONS

The total SERS pension liability in the June 30, 2019 and 2018 actuarial valuations was determined based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2015. The key actuarial assumptions are summarized below:

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

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

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

DISCOUNT RATE

The discount rate used to measure the total pension liability was the long-term expected rate of return of 6.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rates and that Hospital contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected through the year 2139.

EXPECTED RATE OF RETURN ON INVESTMENTS

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity Fund	20%	5.6%
Developed Market Intl. Stock Fund	11%	6.0%
Emerging Market Intl. Stock Fund	9%	7.9%
Real Estate Fund	10%	4.5%
Private Equity	10%	7.3%
Alternative Investments	7%	2.9%
Core Fixed Income Fund	16%	2.1%
High Yield Bond Fund	6%	4.0%
Emerging Market Debt Fund	5%	2.7%
Inflation Linked Bond Fund	5%	1.1%
Liquidity Fund	1%	0.4%
	100%	

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

CHANGES IN THE NET PENSION LIABILITY

	2019 Pension Liability	2018 Pension Liability	2017 Pension Liability
		(in thousands)	
Beginning balance - pension liability	$ 479,671	$ 448,944	$ 419,973
Changes for the year:			
Service cost	6,533	6,019	6,524
Interest	38,182	31,024	30,636
Differences between expected and actual experience	--	--	(19,616)
Changes of assumptions	20,408	6,770	--
Benefit payments, including refunds of member contributions	(33,890)	(27,530)	(25,205)
Change in proportionate allocation of pension liability	90,629	14,444	36,632
Net change in pension liability	121,862	30,727	28,971
Ending balance - pension liability (a)	$ 601,533	$ 479,671	$ 448,944

	2019 Fiduciary Net Position	2018 Fiduciary Net Position	2017 Fiduciary Net Position
		(in thousands)	
Beginning balance - fiduciary net position	$ 175,631	$ 162,744	$ 133,097
Changes for the year:			
Contributions - employer	26,308	20,231	20,949
Contributions - employee	8,153	2,719	1,800
Net investment income	11,849	12,280	20,508
Benefit payments, including refunds of member contributions	(33,890)	(27,530)	(25,205)
Administrative expenses	(12)	(5)	(9)
Other	62	(44)	(5)
Change in proportionate allocation of fiduciary net position	33,184	5,236	11,609
Net change in fiduciary net position	45,654	12,887	29,647
Ending balance - fiduciary net position (b)	$ 221,285	$ 175,631	$ 162,744
Hospital's net pension liability - ending (a)-(b)	$ 380,248	$ 304,040	$ 286,200

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

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

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

	1% Decrease (5.90%)	Discount Rate (6.90%)	1% Increase (7.90%)
Hospital's proportionate share of the net pension liability	$ 454,117,522	$ 380,248,187	$ 318,629,307

TEACHERS' RETIREMENT SYSTEM

The Hospital has a limited number of participants in the TRS.

As of June 30, 2020 and 2019, the Hospital recorded the following amounts in the financial statements related to the TRS:

	2020	2019
	(in thousands)	
Deferred outflows of resources	$ 1,773	$ 1,554
Deferred inflows of resources	62	108
Pension liability	2,471	1,906

ALTERNATE RETIREMENT PLAN

The Hospital also participates in the ARP, a defined contribution plan administered through a third-party administrator, Prudential Financial, Inc. The 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.

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

ALTERNATE RETIREMENT PLAN (CONTINUED)

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 2020 and 2019, via a charge recouped from the Hospital.

Participant and State contributions are both 100% vested immediately. For fiscal years 2020 and 2019, charges to the Hospital for ARP were approximately $8.3 million and $9.3 million, respectively. The liabilities as of June 30, 2020 and 2019 were approximately $589,000 and $613,000, respectively.

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

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

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

GENERAL INFORMATION ABOUT THE SEOPEBP

Plan description – The State's defined benefit OPEB plan, the SEOPEBP, provides OPEB benefits for qualifying employees in accordance with sections 5-257(d) to 5-259(a) of the Connecticut General Statutes. All of the Hospital's employees participate in the SEOPEBP.

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

GENERAL INFORMATION ABOUT THE SEOPEBP (CONTINUED)

The plan is primarily funded on a pay-as-you-go basis. The contribution requirements of the State are established by and may be amended by the State legislature, or by agreement between the State and employee unions, upon approval by the State legislature. Costs are passed to the Hospital as part of its fringe benefit allocation, the rates for which are set each year by the State Comptroller's office. Information on the SEOPEBP's total funding status and progress, contributions required and trend information can be found in the State's Comprehensive Annual Financial Report available on the State's website.

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

Employees covered by benefit terms – Demographic data for individual State entities in the SEOPEBP are not readily available. At June 30, 2019 and 2018, the SEOPEBP in total covered the following:

	2019	2018
Inactive employees or beneficiaries currently receiving benefit payments	77,141	74,579
Inactive employees entitled to but not yet receiving benefit payments	649	256
Active employees	48,015	49,538
Total covered employees	125,805	124,373

NET SEOPEBP LIABILITY

The Hospital's OPEB liability of $546.7 million as of June 30, 2020 for its proportionate share of the net OPEB liability was measured as of June 30, 2019 based on an actuarial valuation that was rolled forward to June 30, 2020. The Hospital's OPEB liability of $380.4 million as of June 30, 2019 for its proportionate share of the net OPEB liability was measured as of June 30, 2018 based on an actuarial valuation that was rolled forward to June 30, 2019. The Hospital's proportion of the net OPEB liability was based on the Hospital's percentage of total overall contributions to the plan. At June 30, 2019 and 2018, the Hospital's proportion of contributions was 2.64% and 2.20%, respectively.

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS

The total OPEB liability in the June 30, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	2.5% as of June 30, 2019 and 3.5% as of June 30, 2018
Salary increase:	3.25% to 19.5% varying by years of service and retirement syste
Discount rate:	3.58% as of June 30, 2019 and 3.95% as of June 30, 2018
Healthcare cost trends rates	
Medical	6.0% graded to 4.5% over 6 years as of June 30, 2019 and 6.5% graded to 4.5% over 4 years as of June 30, 2018
Prescription Drug	6.0% graded to 4.5% over 6 years as of June 30, 2019 and 8.0% graded to 4.5% over 7 years as of June 30, 2018
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 (3.50% as of June 30, 2019 and 3.95% as of June 30, 2018). The blending is based on the sufficiency of projected assets to make projected benefit payments.

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

The actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2015.

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

CONTRIBUTIONS MADE

The SEOPEBP contributions made to cover payroll is as follows:

	2020	2019	2017
Total Hospital payroll covered by SEOPEBP	$ 137,902,301	$ 129,605,987	$ 127,204,218
Total Hospital SEOPEBP contributions	$ 23,159,710	$ 19,903,427	$ 17,668,078
Contributions as a percentage of covered payroll	16.8%	15.4%	13.9%

CHANGES IN THE NET OPEB LIABILITY

	2019 Net OPEB Liability	2018 Net OPEB Liability	2017 Net OPEB Liability
		(in thousands)	
Beginning balance	$ 380,386	$ 366,549	$ 345,344
Changes for the year:			
Service cost	22,421	19,867	20,288
Interest	19,490	14,986	10,791
Differences between expected and actual experience	(17,066)	--	--
Changes in assumptions or other inputs	90,342	(15,955)	(10,783)
Benefit payments	(15,686)	(14,285)	(13,500)
Change in proportionate allocation of OPEB liability	66,836	9,224	14,409
Net changes	166,337	13,837	21,205
Ending balance	$ 546,723	$ 380,386	$ 366,549

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

The following table presents the Hospital's proportionate share of the OPEB liability using the discount rate of 3.58% as well as the proportionate share of the net OPEB liability using a 1.00% increase or decrease from the current discount rate:

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
		(in thousands)	
Net OPEB Liability	$ 636,300	$ 546,723	$ 474,007

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

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

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

	Healthcare Cost Trend Rates		
	1% Decrease	Current Valuation	1% Increase
	(in thousands)		
Net OPEB Liability	$ 468,677	$ 546,723	$ 645,232

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

For the years ended June 30, 2020 and 2019, the Hospital recognized OPEB expense of $43.5 million and $12.8 million, respectively. At June 30, 2020 and 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)		(in thousands)	
Changes in proportion	$ 83,386	$ --	$ 25,156	$ --
Hospital contributions subsequent to measurement date	23,160	--	19,863	--
Changes in assumptions or other inputs - outflows	73,035	--	--	--
Changes in assumptions or other inputs - inflows	--	18,107	--	20,113
Net difference between projected and actual experience in total OPEB liability	--	13,796	--	--
Net difference between projected and actual earnings	--	119	--	152
	$ 179,581	$ 32,022	$ 45,019	$ 20,265

NOTE 10 – PENSION AND OPEB PLANS (CONTINUED)

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

Hospital contributions subsequent to the measurement date totaling $23.2 million reported as deferred outflows of resources will be recognized as a reduction of the OPEB liability in the year ending June 30, 2021. 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:

Year ending June 30,	Change in proportionate participation in OPEB plan	Changes in assumptions or other inputs	Changes in assumptions or other inputs	Net difference between expected and actual experience in total OPEB liability	Net difference between projected and actual earnings on OPEB plan investments
			(in thousands)		
2021	$ 21,803	$ 17,307	$ (5,710)	$ (3,270)	$ (72)
2022	21,802	17,307	(5,710)	(3,269)	(72)
2023	19,805	17,307	(4,556)	(3,269)	32
2024	16,603	17,307	(1,975)	(3,269)	(7)
2025	3,373	3,807	(156)	(719)	--
	$ 83,386	$ 73,035	$ (18,107)	$ (13,796)	$ (119)

EXPECTED RATE OF RETURN ON INVESTMENTS

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity Fund	20%	5.6%
Developed Market Intl. Stock Fund	11%	6.0%
Emerging Market Intl. Stock Fund	9%	7.9%
Real Estate Fund	10%	4.5%
Private Equity	10%	7.3%
Alternative Investments	7%	2.9%
Core Fixed Income Fund	16%	2.1%
High Yield Bond Fund	6%	4.0%
Emerging Market Debt Fund	5%	2.7%
Inflation Linked Bond Fund	5%	1.1%
Liquidity Fund	1%	0.4%
	100%	

NOTE 11 – 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.

Effective for fiscal year 2020, UConn Health implemented the Home Office allocation which allocated 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 standalone 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 years ended June 30, 2020 and 2019 the Home Office allocation resulted in the following expenses being recorded by the Hospital with an offsetting cash transfer back to UConn Health's Central Administrative Services business unit:

Expense Category	2020 Expenses Allocated	2019 Amounts Reclassified*
Salaries and Wages	$ 17,251,046	$ 749,496
Fringe Benefits	12,485,453	--
Internal Contractual Support	2,095,761	(11,574,604)
Utilities	6,058,199	--
Outside and Other Purchased Services	11,680,154	7,147,459
Insurance	1,793,753	--
Pharmaceutical/medical supplies	195,968	--
Repairs and Maintenance	5,249,298	3,677,649
Other Expenses	763,240	--
Total Expenses	$ 57,572,872	$ --

* 2019 amounts have been reclassified for presentation on the Statement of Revenues, Expenses, an Changes in Net Position as disclosed in note 2.

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

For the years ended June 30, 2020 and 2019, the Hospital transferred approximately $50.1 million and $16.8 million to Central Administrative Services for operational support, respectively. UConn Health transferred $75.2 million in 2020 and $38.3 million in 2019 related to fringe benefit support. These transfers are included in transfers in the statements of revenues, expenses and changes in net position.

The Hospital's pension and OPEB liabilities (note 10) represent its pro-rata share of the State's overall liabilities and are not current commitments. The State finances pension and OPEB benefits on a pay-as-you go basis through allocated retirement plan rates, which are part of the Hospital's reported fringe benefit costs. The State charges the Hospital for these and other fringe benefits. During the years ended June 30, 2020 and 2019, the Hospital expensed $201,823,246 and $140,243,633, respectively, for employee fringe benefits. Related salary costs for 2020 and 2019 were $173,901,777 and $144,504,832, respectively. The amounts due to the State related to the fringe benefit programs as of June 30, 2020 and 2019 are included in the statements of net position.

Contributions to the State for an assessment of postemployment benefits other than pensions are also included in fringe benefits expense. The related accrued postemployment benefit liability is a liability of the State. As disclosed in note 2, the Hospital has recorded its proportionate share of postemployment benefits, liabilities, and expenses in accordance with GASB 75.

As more fully described in note 12, UConn Health charges the Hospital with an annual premium for medical malpractice costs which is determined annually by UConn Health. The Hospital is not liable beyond the annual premium, but may have future operational subsidies affected by the performance of the malpractice fund.

The Hospital provides medical services to Connecticut's incarcerated patients under UConn Health contracts with the State's Department of Corrections (DOC), including inpatient and outpatient care provided at Medicaid rates. Net patient service revenues related to these UConn Health contracts with the State's DOC totaled $5,517,375 and $5,664,512 for the years ended June 30, 2020 and 2019, respectively.

As disclosed in note 1, Finance Corporation performs critical services on behalf of the Hospital. These services include the acquisition, construction, and maintenance of clinical space such as the OP building. The outstanding due (to)/from Finance Corporation was $(186,556) and $4,444,667 at June 30, 2020 and 2019, respectively.

During the year ended June 30, 2020, the Hospital has received the full repayment from Finance Corporation for amounts owed related to advances outstanding.

NOTE 12 – 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 the nature of each claim or incident and relevant trend factors. The Hospital 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. The Hospital 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, 2020 and 2019, UConn Health's Malpractice Fund had actuarial reserves of approximately $9.4 million and $12.2 million and assets of approximately $6.1 million and $4.2 million, respectively.

NOTE 13 – SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through November 30, 2020, which represents the date the financial statements were available to be issued. No subsequent events requiring recognition or disclosure in the financial statements, other than the following, were identified.

On July 20, 2020, the Hospital received additional CARES Act funding from a "Hot Spot" allocation. The allocation was based on reported COVID-19 cases treated during the period January 1, 2020 to June 10, 2020, and totaled $12.5 million. The Hospital did not recognize revenue related to this allocation, as management was not able to determine whether the eligibility criteria were met as of June 30, 2020.

On September 17, 2020, CMS (Medicare) advanced approximately $45.3 million to the Hospital. This is considered an advance payment on future Medicare claims and will be recouped in twenty-nine installments beginning one year from the issuance date. The recoupment rate will be 25% for the first eleven months and 50% for the remaining six months. This is an interest free advance. However, if this is not repaid timely, there will be a 4% interest rate charged on the outstanding advance.

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 John Dempsey Hospital (21002 Fund) (the Hospital), which comprise the statement of net position as of June 30, 2020 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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.

Marcum LLP ▪ CityPlace I ▪ 185 Asylum Street ▪ 25th Floor ▪ Hartford, CT 06103 ▪ Phone 860.760.0600 ▪ Fax 860.760.0601 ▪ www.marcumllp.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Hartford, CT
November 30, 2020

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	2019	2018	2017	2016	2015	2014
	(dollars in thousands)					
Total Pension Liability						
Service cost	$ 6,533	$ 6,019	$ 6,524	$ 4,024	$ 3,537	$ 2,662
Interest	38,182	31,024	30,636	26,310	23,387	18,508
Differences between expected and actual experience	--	--	(19,616)	9,654	--	--
Change of assumptions	20,408	6,770	--	61,962	--	--
Benefit payments, including refunds of member contributions	(33,890)	(27,530)	(25,205)	(21,691)	(18,886)	(14,510)
Change in proportionate allocation of pension liability	90,629	14,444	36,632	29,897	56,513	--
Net Change in Total Pension Liability	121,862	30,727	28,971	110,156	64,551	6,660
Total Pension Liability - Beginning	479,671	448,944	419,973	309,817	245,266	238,606
Total Pension Liability - Ending (a)	$ 601,533	$ 479,671	$ 448,944	$ 419,973	$ 309,817	$ 245,266
Fiduciary Net Position						
Contributions - employer	$ 26,308	$ 20,231	$ 20,949	$ 18,872	$ 15,628	$ 11,750
Contributions - employee	8,153	2,719	1,800	1,687	2,133	1,341
Net investment income	11,849	12,280	20,508	(1)	3,354	13,366
Benefit payments, including refunds of member contributions	(33,890)	(27,530)	(25,205)	(21,691)	(18,886)	(14,510)
Administrative expenses	(12)	(5)	(9)	(8)	--	--
Other	62	(44)	(5)	959	--	--
Change in proportionate allocation of fiduciary net position	33,184	5,236	11,609	11,731	22,343	--
Net Change in Fiduciary Net Position	45,654	12,887	29,647	11,549	24,572	11,947
Fiduciary Net Position - Beginning	175,631	162,744	133,097	121,548	96,976	85,029
Fiduciary Net Position - Ending (b)	$ 221,285	$ 175,631	$ 162,744	$ 133,097	$ 121,548	$ 96,976
Hospital's Net Pension Liability - Ending (a)-(b)	$ 380,248	$ 304,040	$ 286,200	$ 286,876	$ 188,269	$ 148,290
Hospital's Portion of SERS Net Pension Liability	1.44760%	1.40197%	1.35827%	1.24930%	1.13935%	0.92599%
Fiduciary Net Position as a Percentage of the Total Pension Liability	36.79%	36.61%	36.25%	31.69%	39.23%	39.54%
Hospital's Covered-Employee Payroll	$ 65,848	$ 58,474	$ 56,868	$ 52,583	$ 45,715	$ 34,258
Hospital's Net Pension Liability as a Percentage of Covered-Employee Payroll	577.46%	519.96%	503.27%	545.57%	411.83%	432.86%

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

(dollars in thousands)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contributions	$ 29,402	$ 26,308	$ 20,231	$ 20,949	$ 18,920	$ 15,714	$ 11,750	$ 9,812	$ 8,578	$ 8,742
Contributions in relation to the contractually required contribution	29,402	26,308	20,231	20,949	18,762	15,628	11,750	9,798	8,578	7,647
Contribution deficiency	$ --	$ --	$ --	$ --	$ 158	$ 86	$ --	$ 14	$ --	$ 1,095
Hospital's covered-employee payroll	$ 80,545	$ 65,848	$ 58,474	$ 56,868	$ 52,583	$ 45,715	$ 34,258	$ 30,600	$ 29,722	$ 30,636
Contributions as a percentage of covered-employee payroll	36.50%	39.95%	34.60%	36.84%	35.68%	34.19%	34.30%	32.02%	28.86%	24.96%

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN JOHN DEMPSEY HOSPITAL'S NET OPEB LIABILITY AND RELATED RATIOS

	2019	2018	2017
		(dollars in thousands)	
Net OPEB Liability			
Service cost	$ 22,421	$ 19,867	$ 20,288
Interest	19,490	14,986	10,791
Differences between expected and actual experience	(17,066)	--	--
Changes of assumptions or other inputs	90,342	(15,955)	(10,783)
Benefit payments	(15,686)	(14,285)	(13,500)
Change in proportionate allocation of OPEB liability	66,836	9,224	14,409
Change in Net OPEB Liability	166,337	13,837	21,205
Net OPEB Liability - Beginning	380,386	366,549	345,344
Net OPEB Liability - Ending	$ 546,723	$ 380,386	$ 366,549
Covered-Employee Payroll	$ 129,606	$ 127,204	$ 125,044
Net OPEB Liability as a Percentage of Covered-Employee Payroll	421.83%	299.04%	293.14%

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF JOHN DEMPSEY HOSPITAL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

	2019	2018	2017	2016
	(dollars in thousands)			
The Hospital's proportion of the net OPEB liability	2.64%	2.20%	2.11%	2.00%
The Hospital's proportionate share of the net OPEB liability	$ 546,723	$ 380,386	$ 366,549	$ 345,344
The Hospital's covered-employee payroll	$ 129,606	$ 127,204	$ 125,044	$ 123,476
The Hospital's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	421.83%	299.04%	293.14%	279.69%
Plan fiduciary net position (assets)	$ 1,196,008	$ 849,889	$ 542,342	$ 340,618
Plan fiduciary total OPEB liability	$ 21,878,399	$ 18,114,287	$ 17,904,922	$17,583,045
Plan fiduciary net position as a percentage of the total OPEB liability	5.47%	4.69%	3.03%	1.94%

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF JOHN DEMPSEY HOSPITAL'S OPEB CONTRIBUTIONS

	2020	2019	2018	2017	2016
	(dollars in thousands)				
Contractually required contribution	$ 23,160	$ 19,903	$ 17,668	$ 14,090	$ 12,189
Contributions in relation to the contractually required contribution	23,160	19,903	17,668	14,090	12,189
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --
JDH's covered-employee payroll	$ 137,902	$ 129,606	$ 127,204	$ 125,044	$ 123,476
Contributions as a percentage of covered-employee payroll	16.79%	15.36%	13.89%	11.27%	9.87%

CHANGES OF BENEFIT TERMS

In the June 30, 2019 and 2018 actuarial valuations, there were no changes of benefit terms.

CHANGES OF ASSUMPTIONS

In the June 30, 2019 and 2018 actuarial valuations, the discount rates were increased to more closely reflect the expected long-term rate of return, and the demographic assumptions were updated to match the most recent valuations or experience studies.