THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

(With Management's Discussion and Analysis)

JUNE 30, 2020 AND 2019

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONTENTS

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the consolidated financial position and activities of The University of Connecticut Health Center Finance Corporation and Subsidiaries (Finance Corporation) as of and for the years ended June 30, 2020, 2019, and 2018. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the notes thereto, which follow this section.

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

This annual report consists of management's discussion and analysis and the consolidated financial statements. The basic financial statements (consolidated statements of net position, consolidated statements of revenues, expenses, and changes in net position, and consolidated statements of cash flows) present the financial position of the Finance Corporation and subsidiaries at June 30, 2020 and 2019, and the results of its operations and financial activities for the years then ended. These statements report information about the Finance Corporation using accounting methods similar to those used by private-sector companies. The consolidated statements of net position include all of the Finance Corporation's assets and liabilities. The consolidated statements of revenues, expenses, and changes in net position reflect the years' activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not necessarily when cash is received or paid. These consolidated statements report the Finance Corporation's net position and how it has changed. Net position (the difference between assets and liabilities) is one way to measure financial health or position. The consolidated statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, investing, and capital financing activities. The consolidated financial statements include notes that explain information in the consolidated financial statements and also provide more detailed data.

SUBSIDIARIES

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

The Finance Corporation is also the sole member and parent to the UConn Health Pharmacy Services, Inc. (UHPSI) which is a Connecticut non-stock corporation that operates within the meaning of Section 115 of the Internal Revenue Code. UHPSI provides pharmacy services to UConn Health's constituent units including UMG.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

The Finance Corporation's financial position at June 30, 2020, 2019, and 2018, included assets of $223.5 million, $224.9 million, and $221.6 million, respectively, and liabilities of $197.4 million, $201.0 million, and $205.4 million, respectively. The value of both the assets and liabilities is attributable mainly to the Finance Corporation maintaining the real estate and related financing on the UConn Musculoskeletal Institute formerly known as the Medical Arts and Research Building, 16 Munson Road (Munson Road), and the OP.

The Finance Corporation finished the current year with operating income of $2.2 million compared to operating income of $7.7 million in the prior year. Current year income was impacted by the termination of the State of Connecticut Department of Corrections (DOC) pharmacy services contract and the start of operations of the specialty pharmacy in UHPSI. UHPSI had an operating loss of $630,000 in 2020 compared to operating income of $2.3 million in fiscal year 2019. Total Finance Corporation net position increased $2.2 million in fiscal 2020, compared to an increase of $7.7 million in fiscal 2019.

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 business across the country for non-essential services. The impact of COVID-19 on Finance Corporation and its subsidiaries has been difficult to measure. Circle Road Corporation allowed for a three month rent abatement for its private tenants due to the temporary closure of the OP. These rents are not part of the repayment of the mortgage for that building. Circle Road Corporation continued to make required debt payments throughout this time. The UHPSI was impacted primarily by the reduction in clinical volumes and the expected related clinical pharmaceutical usage by UMG.

FINANCIAL HIGHLIGHTS (CONTINUED)

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

	2020	2019	2018
		(In thousands)	
Summary of assets and liabilities at June 30:			
Current assets	$ 16,229	$ 13,474	$ 6,233
Net investment in direct financing lease, net of current portion	182,548	185,951	189,121
Capital assets, net	24,714	25,468	26,216
Total assets	$ 223,491	$ 224,893	$ 221,570
Current liabilities	$ 18,821	$ 13,950	$ 10,234
Long-term liabilities	178,559	187,037	195,156
Total liabilities	$ 197,380	$ 200,987	$ 205,390
Net investment in capital assets	$ 25,021	$ 22,245	$ 19,923
Unrestricted (deficit)	1,090	1,661	(3,743)
Total net position	26,111	23,906	16,180
Total liabilities and net position	$ 223,491	$ 224,893	$ 221,570

Changes in net position represent the operating activity of the Finance Corporation, primarily composed of revenues and expenses associated with real estate transactions (from Circle Road Corporation) and the operations of UHPSI and are summarized below for the years ended June 30, 2020, 2019, and 2018:

	2020	2019	2018
		(In thousands)	
Summary of revenues, expenses, and nonoperating expenses for the year ended June 30:			
Operating revenues	$ 21,207	$ 44,785	$ 13,248
Operating expenses	(18,991)	(37,048)	(10,719)
Nonoperating expenses	(11)	(11)	(11)
Increase in net position	$ 2,205	$ 7,726	$ 2,518

SIGNIFICANT VARIANCES IN THE FINANCIAL STATEMENTS

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

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets included the following:

- *Inventory* – decreased from June 30, 2019 to June 30, 2020 by approximately $1.3 million, due to decreased stock amounts of pharmaceutical inventory for the UHPSI as a result of the discontinuation of the pharmacy services contract with the DOC. This decrease was only partially offset by growth in required inventories from the specialty pharmacy.

- *Contract receivables* – decreased from June 30, 2019 to June 30, 2020 by approximately $2.6 million due to the collection of DOC receivables under its contract with UHPSI which terminated on September 30, 2019.

- *Net investment in direct financing lease* – decreased from June 30, 2019 to June 30, 2020 by approximately $3.2 million due to current year payment activity.

Changes in liabilities included the following:

- *Due to/from related parties* – decreased from June 30, 2019 to June 30, 2020 by approximately $1.9 million due to repayments to the Hospital and UConn Health for prior years' advances partially offset by amounts due from UMG for pharmaceuticals obtained from UHPSI. Due to Malpractice increased from funds transferred related to an expected settlement in July 2020.

- *Notes payable* – decreased from June 30, 2019 to June 30, 2020 by approximately $6.7 million due to the scheduled mortgage payments being made during the fiscal year.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues

Total operating revenues decreased from June 30, 2019 to June 30, 2020 by approximately $23.6 million or 53%.

- *Contract and other income* – decreased by approximately $20.5 million due to the termination of the DOC pharmacy contract with UHPSI. The current year contract and other income includes only three months of activity compared to a full year in 2019.

- *Rental income* – decreased by approximately $2.9 million or 58%. Prior year rental income included the final $2.9 million payment for Munson Road rent resulting from the building's prior years' mortgage balloon payment. The $2.9 million was charged to UConn Health, the Hospital, and UMG. No further rental charges are expected for Munson Road. Current

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

year operational results also reflect a reduction of rent paid by third parties for space in the OP due to closure for COVID-19 concerns. This reduction was approximately $25,000.

Operating expenses

Total operating expenses decreased from June 30, 2019 to June 30, 2020 by approximately $18.1 million or 49%.

- *Pharmaceuticals / medical supplies* – decreased by approximately $15.3 million due to the termination of the DOC pharmacy contract with UHPSI. Pharmaceuticals purchased were resold to DOC and other parties, and recorded as contract and other income on the statements of revenues, expenses and changes in net position.

- *Internal contractual support* – decreased by approximately $2.3 million due to the termination of the DOC pharmacy contract with UHPSI. Amounts consisted of pharmacy personnel costs allocated from UConn Health.

CAPITAL AND DEBT RELATED ACTIVITIES

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

The OP construction was completed in 2019. The project finished ahead of budget and Circle Road Corporation is in the process of closing out the additional funds held in trust to be used for additional site work and minor improvements. The Finance Corporation continues to rent the OP to UConn Health which in turn subleases the space to related parties. Lease payments from UConn Health provide the funding for the Finance Corporation's OP mortgage payments. For the years ended June 30, 2020 and 2019, the Finance Corporation made all regularly scheduled payments on the mortgage thereby reducing the principal amount of the secured mortgage on the OP by $5,276,127 and $5,028,886, respectively. For additional information on debt related activities, see Note 3.

The Finance Corporation continues to own and rent the UConn Musculoskeletal Institute property to UConn Health. For the years ended June 30, 2020 and 2019, the Finance Corporation made all regularly scheduled payments on the UConn Musculoskeletal Institute's secured mortgage thereby reducing the amount of secured mortgage principal debt on the UConn Musculoskeletal Institute by $1,472,336 and $1,382,118, respectively.

RELATED PARTIES

During fiscal years 2020 and 2019, UHPSI was charged the cost of pharmacy personnel and other operating expenses offset by charges to UConn Health for pharmaceuticals sold, totaling approximately $1.5 million and $3.8 million, respectively. In fiscal year 2019, UHPSI received initial financing and inventory totaling $5.4 million from UConn Health. During fiscal year 2020 and 2019, UHPSI repaid UConn Health $-0- and $2.3 million, respectively. Also, in fiscal year 2019, UHPSI was repaid $692,406 related to operating expenses paid on behalf of UConn Health in 2018.

UHPSI incurred charges of approximately $962,000 from the Hospital in 2019 for drug purchases for the DOC contract. Approximately $778,000 of this amount was repaid as of June 30, 2019. During fiscal year 2020, UHPSI received pharmacy overhead revenue from the Hospital in the amount of $434,857. This was offset by current and prior year pharmaceuticals and supplies expenses totaling $248,301 resulting in an amount due from the Hospital at June 30, 2020 of $186,556.

During fiscal years 2020 and 2019, UHPSI provided pharmaceuticals to UMG in the amount of approximately, $5.6 million and $2.4 million, respectively. In return, UHPSI received -0- and $1.9 million from UMG, respectively, in fiscal years 2020 and 2019.

For 2019, the Finance Corporation accrued rent revenue and allocated rent expense to UConn Health, the Hospital and UMG in the amount of $2.9 million The amounts allocated to each entity were approximately $2.1 million, $484,000, and $308,000, respectively. The $2.9 million represents the final settlement of balances from the Munson Road balloon payment made in fiscal year 2011. The amounts were remitted to Finance Corporation in 2020.

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

For additional information on related parties, see Note 4.

FISCAL YEAR 2021 OUTLOOK

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

FISCAL YEAR 2021 OUTLOOK (CONTINUED)

The economic position of the Finance Corporation is closely tied to that of UConn Health's clinical entities serviced by the Finance Corporation. Through various rental agreements, UConn Health provides funding which enables the Finance Corporation to make its required debt and principal payments. The addition of UHPSI provides another opportunity for the Finance Corporation to help the clinical operation expand its offerings, adapt to the changing pharmacy landscape, and maximize financial resources.

As we look forward to fiscal year 2021, UConn Health is challenged to adapt its business to meet the demands of the COVID economy. While our facilities offer certain advantages, such as the ability to create negative pressure COVID 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.

The Finance Corporation is dependent upon both the Hospital and UMG, the clinical enterprise, for the rental payments that support the OP's mortgage payments. It also depends on its relationships with the clinical enterprise in building out UHPSI's business opportunities. UConn Health began fiscal 2020 favorable to budget through February. The impact of COVID on operations was swift and pronounced. The temporary closure of non-essential services was a significant financial blow. During this time, UConn Health was able to lean on its cash reserves to continue to make scheduled mortgage payments to the Circle Road Corporation. Clinical operations began to ramp up in May of this year and have continued to improve over the first couple months of fiscal 2021. UConn Health anticipates returning to pre-COVID clinical levels in the second half of fiscal 2021. 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. At the same time, UConn Health has sought out and obtained additional liquidity via the Medicare Advance program whereby Medicare advances funds to be recouped in a later time period from Medicare payments due. Management feels that these funds will provide the liquidity required to sustain operations through fiscal 2021 and beyond. UConn Health does not anticipate issues making scheduled debt payments, lease payments, or meeting operational needs over the next year.

Continued economic pressures on the State of Connecticut (State) may cause additional instability in the predictability of State support across UConn Health. Leadership remains diligent on seeking out continued, appropriate cost reductions 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.

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

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
University of Connecticut Health Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Connecticut Health Center Finance Corporation (Finance Corporation or Company), a component unit of the State of Connecticut, as of and for the years ended June 30, 2020 and 2019, and the related notes to the consolidated financial statements, which collectively comprise Finance Corporation's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Finance Corporation as of June 30, 2020 and 2019, and the consolidated results of their operations and changes in net position, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

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

Other Information

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

The consolidating information in Schedules I and II is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2020 consolidating information in Schedules I and II is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
December 7, 2020

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF NET POSITION

JUNE 30, 2020 AND 2019

	2020	2019
Assets		
Current Assets		
Cash	$ 4,078,789	$ 4,889,825
Malpractice fund	2,173,675	357,022
Inventory	316,225	1,594,912
Contract receivables	--	2,636,637
Construction escrow account	27,274	31,774
Due from John Dempsey Hospital	186,556	--
Due from UConn Medical Group	6,051,907	757,388
Net investment in direct financing lease, current portion (note 5)	3,394,817	3,206,478
Total Current Assets	16,229,243	13,474,036
Noncurrent Assets		
Net investment in direct financing lease, net of current portion (note 5)	182,548,032	185,950,600
Capital assets, net (note 2)	24,714,042	25,468,165
Total Noncurrent Assets	207,262,074	211,418,765
Total Assets	$ 223,491,317	$ 224,892,801

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2020 AND 2019

	2020	2019
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,152,902	$ 1,568,583
Due to UConn Health - Malpractice fund	2,173,675	357,022
Due to UConn Health	8,369,558	2,183,218
Due to John Dempsey Hospital, current portion	--	3,071,615
Advances for construction	6,619	6,619
Security deposits	14,329	14,329
Loans payable, current portion (note 3)	7,103,967	6,748,463
Total Current Liabilities	18,821,050	13,949,849
Noncurrent Liabilities		
Due to John Dempsey Hospital, net of current portion	--	1,373,051
Loans payable, net of current portion (note 3)	178,559,603	185,663,570
Total Noncurrent Liabilities	178,559,603	187,036,621
Total Liabilities	197,380,653	200,986,470
Net Position		
Net investment in capital assets	25,020,595	22,244,984
Unrestricted net assets	1,090,069	1,661,347
Total Net Position	26,110,664	23,906,331
Total Liabilities and Net Position	$ 223,491,317	$ 224,892,801

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

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

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating Revenues		
Rental income	$ 2,094,038	$ 5,005,439
Interest income from direct financing lease	10,770,074	10,947,964
Contract and other income (net of discounts of $120,036 and $265,002, respectively)	8,342,674	28,831,774
Total Operating Revenues	21,206,786	44,785,177
Operating Expenses		
Professional services	31,900	44,150
Internal contractual support	1,509,133	3,795,588
Outside agency per diems	621,575	480,996
Pharmaceuticals/medical supplies	6,442,989	21,781,112
Rent	107,765	128,100
Equipment and software leases	229,256	279,090
Insurance	750	--
Repairs and maintenance	15,474	44,164
Interest expense	9,220,818	9,568,421
Depreciation	754,123	753,506
Other	57,628	173,056
Total Operating Expenses	18,991,411	37,048,183
Operating Income	2,215,375	7,736,994
Nonoperating Expenses		
Loan servicing fees	(11,042)	(11,043)
Total Nonoperating Expenses	(11,042)	(11,043)
Increase in Net Position	2,204,333	7,725,951
Net Position - Beginning	23,906,331	16,180,380
Net Position - Ending	$ 26,110,664	$ 23,906,331

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Cash paid to suppliers, contractors and others	$ (21,359,055)	$ (34,336,575)
Cash received for rental income	4,978,375	2,127,143
Cash received for contract and other income	13,189,782	24,330,633
Cash (returned to) received from related parties	(4,815,536)	3,571,284
Cash paid for administrative expenses	(33,900)	(26,900)
Net Cash Used in Operating Activities	(8,040,334)	(4,334,415)
Cash Flows from Investing Activities		
Change in value of direct financing lease	7,751	(276,863)
Net Cash Provided by/(Used in) Investing Activities	7,751	(276,863)
Cash Flows from Capital Financing Activities		
Direct financing lease payments received (including $10,770,074 and $10,947,964 of interest, respectively)	13,976,552	13,976,552
Transfers from construction escrow account	4,500	498,871
Repayments of capital debt	(6,748,463)	(6,411,004)
Loan servicing fees	(11,042)	(11,043)
Net Cash Provided by Capital Financing Activities	7,221,547	8,053,376
Net (Decrease)/Increase in Cash	(811,036)	3,442,098
Cash - Beginning	4,889,825	1,447,727
Cash - Ending	$ 4,078,789	$ 4,889,825

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating income	$ 2,215,375	$ 7,736,994
Depreciation	754,123	753,506
Direct financing lease interest payments received	(10,770,074)	(10,947,964)
Changes in operating assets and liabilities:		
Inventory	1,278,687	(1,594,912)
Contract receivables	2,636,637	(2,636,637)
Due from UConn Health	6,186,340	3,035,922
Due from UConn Medical Group	(5,294,519)	(757,388)
Accounts payable and accrued expenses, excluding payables for capital assets	(415,681)	368,756
Due to John Dempsey Hospital	(4,631,222)	(298,742)
Security deposits	--	6,050
Net Cash Used in Operating Activities	$ (8,040,334)	$ (4,334,415)
Schedule of Non-Cash Financing Transactions		
Change in mortgage proceeds held by Trustee in construction escrow account	$ 4,500	$ 497,371

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

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

REPORTING ENTITY

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

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

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

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

REPORTING ENTITY (CONTINUED)

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

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

In 2019, UHPSI commenced operations. The expenses reported in the consolidated statements of revenues, expenses, and changes in net position include allocations from UConn Health for salary and fringe benefits for persons utilized in UHPSI. This is reported as Internal Contractual Support. Otherwise, undetermined amounts for salaries, services, and expenses provided to and received from UConn Health and other Connecticut State agencies are not included in the consolidated statements of revenues, expenses, and changes in net assets.

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

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

BASIS OF PRESENTATION

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

PROPRIETARY FUND ACCOUNTING

The Finance Corporation 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)

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 business across the country for non-essential services. The impact of COVID-19 on the Finance Corporation and its Subsidiaries has been difficult to measure. Circle Road Corporation allowed for a three month rent abatement for its private tenants due to the temporary closure of the Outpatient Pavilion (OP). Circle Road Corporation continued to make required debt payments throughout this time. UHPSI was impacted primarily by the reduction in clinical volumes and the expected related clinical pharmaceutical usage by UMG. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Finance Corporation's financial condition or results of operations is uncertain as of the date of this report.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH

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

CONTRACT AND OTHER INCOME

Contract revenue is primarily for pharmaceuticals provided to the State of Connecticut Department of Corrections (DOC) under a renewable, 6 month contract which became effective July 1, 2018 and was terminated as of September 30, 2019. Revenue is recorded on the accrual basis of accounting in the period the related services are rendered.

As described in Note 4, UHPSI provides pharmaceuticals to UMG. UHPSI records revenue on the accrual basis of accounting in the period the related services are rendered. Beginning in July 2020, UHPSI will start to earn revenues from the operation of a specialty pharmacy business that sells pharmaceuticals to patients.

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

CONTRACT AND OTHER INCOME (CONTINUED)

Mid fiscal year 2020, the Hospital pharmacy began allocating to UHPSI on a monthly basis overhead revenue related to certain pharmaceutical sales. This revenue is included in contract and other income on the consolidated statements of revenues, expenses, and changes in net position.

INVENTORY

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

DESCRIPTION OF LEASING ARRANGEMENTS

The Finance Corporation has leasing arrangements with UConn Health for the UConn Musculoskeletal Institute and the OP building and associated equipment. The UConn Musculoskeletal Institute is leased under a year to year operating lease. Effective June 30, 2019, Finance Corporation charged UConn Health, the Hospital, and UMG rent for 16 Munson Road (Munson Road) in the amount of $2.9 million. Such rent represented the final amounts owed related to the Munson Road mortgage balloon payment made in fiscal year 2011.

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

RENTAL INCOME AND INTEREST INCOME

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

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

MALPRACTICE FUND

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

CAPITAL ASSETS

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

CONSTRUCTION ESCROW ACCOUNT

The construction escrow account represents amounts advanced from TIAA to Wells Fargo Bank Northwest, N.A. (Trustee) for the financing of the OP construction project. Such amounts represent cash held by the Trustee that has not yet been drawn down fully by the Finance Corporation for construction expenses. Refer to Note 3 for additional information related to the debt.

ADVANCES FOR CONSTRUCTION

Advances for construction in the amount of $6,619 as of June 30, 2020 and 2019, represent the unused portion of bond proceeds that were received in March 1993 by the Finance Corporation which are to be used for the Farm Hollow Building renovations.

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

NET POSITION

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

UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments. Under this Statement, a lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

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 Finance Corporation is currently evaluating the impact this statement will have on its consolidated financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this 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 Statements 87 and 92 to reporting periods beginning after June 15, 2021.

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

RECLASSIFICATIONS

Certain reclassifications were made to the 2019 Circle Road Corporation's cost of property held for lease under the direct financing lease in Note 5 to conform to the current year presentation.

NOTE 2 – CAPITAL ASSETS

Capital assets as of June 30, 2020 and 2019, consisted of the following:

	2020	2019
Buildings	$ 29,730,870	$ 29,730,870
Land	6,593,084	6,593,084
Equipment	18,681	18,681
	36,342,635	36,342,635
Less accumulated depreciation	11,628,593	10,874,470
Capital assets, net	$ 24,714,042	$ 25,468,165

As of June 30, 2019, the main building and garage of the OP were substantially complete. The remaining balance in the custodial construction escrow account was $27,274 and $31,774 as of June 30, 2020 and 2019, respectively.

As described in Note 1, the OP is leased to UConn Health under the terms of a direct financing lease. The cumulative costs incurred as of June 30, 2020 and 2019 were $200,907,882 and $200,915,634, respectively. During the year ended June 30, 2020, equipment was retired which decreased the direct financing lease costs to $200,907,882.

Capital assets and depreciation activity for the years ended June 30, 2020 and 2019 was as follows:

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

NOTE 2 – CAPITAL ASSETS (CONTINUED)

	2018	Additions	Deductions	2019
Buildings	$ 29,730,870	$ --	$ --	$ 29,730,870
Land	6,593,084	--	--	6,593,084
Equipment	20,998	5,759	(8,076)	18,681
Less: accumulated depreciation - Buildings	(10,108,042)	(753,300)	--	(10,861,342)
Less: accumulated depreciation - Equipment	(20,998)	(206)	8,076	(13,128)
	$ 26,215,912	$ (747,747)	$ --	$ 25,468,165

NOTE 3 – NONCURRENT LIABILITIES

The Finance Corporation has a loan agreement with Capital Lease Funding (transferred to KeyBank Real Estate Capital (KeyBank) in August 2018 from Wells Fargo Bank N.A. (Wells Fargo)), which financed the construction of the UConn Musculoskeletal Institute. The Finance Corporation through its subsidiary, the Circle Road Corporation, has a mortgage with TIAA which financed the construction of the OP. Changes in long-term obligations as of June 30, 2020 and 2019, respectively are as follows:

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

	June 30, 2018 Balance	Additions	Repayments	June 30, 2019 Balance	Amounts due within 1 year
Business-type activities:					
Notes from Direct Borrowings -					
Capital Lease Funding (KeyBank)	$ 10,595,782	$ --	$ (1,382,118)	$ 9,213,664	$ 1,472,336
TIAA	188,227,255	--	(5,028,886)	183,198,369	5,276,127
	$ 198,823,037	$ --	$ (6,411,004)	$ 192,412,033	$ 6,748,463

NOTE 3 – NONCURRENT LIABILITIES (CONTINUED)

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

	2020	2019
Secured mortgage - Capital Lease Funding (KeyBank), principal and interest payments began January 2004 and continue until November 2024, with interest at 6.34%	$ 7,741,328	$ 9,213,664
Secured mortgage - TIAA, 25 year, 4.809% coupon. Principal and interest payments began on April 15, 2015 and will continue until March 15, 2040.	177,922,242	183,198,369
	$ 185,663,570	$ 192,412,033

The Finance Corporation's outstanding notes from direct borrowings related to business-type activities of $185,663,570 and $192,412,033 as of June 30, 2020 and 2019, respectively are secured by the Musculoskeletal Institute building, the OP, the Leasehold (as to Land) and Fee (as to improvements) Mortgage, Security Agreement, Assignment of Lease and Rents and Fixture Filing. The outstanding notes from direct borrowings related to business-type activities contain a provision that in an event of default, outstanding amounts become immediately due if the Finance Corporation has not made a payment when due.

On June 30, 2019, the Finance Corporation was not in compliance with certain insurance provisions related to the OP mortgage with TIAA. As of November 5, 2019, the Finance Corporation obtained a waiver for this violation to remove the requirement that UConn Health or Circle Road Corporation maintain business interruption insurance and to waive the related default (as defined in the Declaration of Trust, dated as of December 3, 2012, by Wells Fargo Trust Company, National Association, formerly known as Wells Fargo Bank Northwest, National Association, with respect to the loan), for the time period commencing on the date that construction ended on the OP through June 30, 2020. The Finance Corporation subsequently remedied its insurance to include all required coverages.

NOTE 3 – NONCURRENT LIABILITIES (CONTINUED)

Debt service requirements on long-term debt at June 30, 2020 are as follows:

	Business-Type Activities	
	Notes from Direct Borrowings	
Year Ending June 30,	Principal	Interest
2021	$ 7,103,967	$ 8,881,072
2022	7,478,498	8,506,542
2023	7,873,091	8,111,949
2024	8,288,840	7,696,198
2025	7,533,172	7,276,924
2026-2030	38,817,985	31,036,275
2031-2035	49,345,824	20,508,435
2036-2040	59,222,193	7,139,353
	$ 185,663,570	$ 99,156,748

The Finance Corporation recorded interest expense of $9,220,818 and $9,568,421, respectively, during the years ended June 30, 2020 and 2019.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Finance Corporation enters into transactions for the benefit of UConn Health entities. In 2006, the Finance Corporation entered into transactions resulting in the acquisition of the UConn Musculoskeletal Institute and Munson Road properties. The Finance Corporation leases these buildings to entities from UConn Health under operating agreements that renew annually. As disclosed in Note 1, for the year ended June 30, 2019, rent of $2.9 million was charged to UConn Health, the Hospital, and UMG. The amounts charged were approximately $2.1 million, $484,000, and $308,000, respectively, related to Munson Road.

The amount Due to the Hospital from Finance Corporation at June 30, 2019 was approximately $4.2 million. During fiscal year 2020, the Finance Corporation repaid the Hospital approximately $4.7 million for prior year advances and received rental income from the Hospital of approximately $484,000. There were no amounts Due to the Hospital from Finance Corporation at June 30, 2020. See later discussion in Note 4 for activity between the Hospital and UHPSI.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

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

Payments to be received under these agreements over the next five years and thereafter are estimated to be as follows:

Year ending June 30,	Outpatient Pavilion (a)	UConn Musculoskeletal Institute
2021	$ 13,975,852	$ 2,020,230
2022	13,975,852	2,020,230
2023	13,975,852	2,020,230
2024	13,975,852	2,020,230
2025	13,975,852	841,762
Thereafter	206,143,815	--
	$ 276,023,075	$ 8,922,682

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

The paragraphs which follow describe the related party transactions that are summarized in the tables at the end of this note.

During the year ended June 30, 2020, Circle Road Corporation repaid UConn Health for prior years' advances net of current year activity by approximately $72,000.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

During fiscal year 2020, UHPSI incurred the cost of pharmacy personnel and other operating expenses offset by revenues from sales to UConn Health netting to an increase in the amount owed to UConn Health by approximately $1.5 million. During fiscal year 2019, UHPSI received initial financing, inventory, the costs of pharmacy personnel, and other costs offset by charges to UConn Health for pharmaceuticals sold and repayments netting to approximately $6.9 million of an increase in the payable to UConn Health.

As of June 30, 2019, the amount due from UConn Health of approximately $2.2 million was reduced by the timing difference of a payment of $ 2.6 million from DOC. As a result, the total amount due to UConn Health at June 30, 2019 was approximately, $4.8 million. The $2.6 million was received by UHPSI in fiscal year 2020. As of June 30, 2020 and 2019, UHPSI has amounts due to UConn Health of approximately $8.4 million and $2.2 million, respectively, as described above.

During fiscal year 2020 and 2019, UHPSI incurred charges from the Hospital for drug purchases. In 2020, these charges were offset by allocated overhead revenue from the Hospital and repayments by UHPSI. As a result, the amount paid to the Hospital decreased by $371,607 in 2020 after increasing by $185,050 in 2019.

During fiscal year 2020 and 2019, UHPSI provided pharmaceuticals to UMG in the amount of approximately $5.6 million and $2.4 million, respectively. Pharmaceutical expense to UMG is recorded as a chargeback from UHPSI. During the years ended June 30, 2020 and 2019, UMG repaid UHPSI $-0- and $1.9 million, respectively. UHPSI had amounts due from UMG at June 30, 2020 and 2019 of approximately $6.1 million and $500,000, respectively.

Balances at fiscal year-end for the Malpractice fund can fluctuate based on funding needs for payments. The amounts due to UConn Health – Malpractice fund at June 30, 2020 was higher due to a payment that was made in July 2020. The amounts due to UConn Health – Malpractice fund at June 30, 2020 and 2019 were approximately $2.2 million and $357,022, respectively.

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

Listed in the tables below are material transactions with related parties and the component units of the Finance Corporation to show the changes in amounts Due (To) or From each entity. Certain transactions that were settled during the years with transfers, payments or cash receipts and did not result in a receivable or payable balance at June 30 have been excluded from these tables.

	2020	2019
UConn Health:		
Finance Corporation:		
Rental income	$ --	$ 2,094,987
Cash received for rent	(2,094,987)	--
Circle Road Corporation:		
Construction and other transactions	2,228	(1,265)
Cash paid for prior years' expenses	72,129	--
UHPSI:		
Cash advances	--	(4,000,000)
Inventory	--	(1,354,151)
Internal Contractual Support and other expenses, net of pharmaceuticals sold	(1,494,956)	(3,795,302)
Cash repayments to UConn Health	--	2,275,079
Cash received from UConn Health	--	(692,406)
Receivable related to the DOC contract	--	2,670,754
Cash received from DOC by UConn Health	(2,670,754)	--
Total Change in Due to UConn Health	$ (6,186,340)	$ (2,802,304)

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

	2020	2019
John Dempsey Hospital:		
Finance Corporation:		
Rental income	$ --	$ 483,793
Cash received for rent	(483,793)	--
Cash paid to John Dempsey Hospital for advances	4,743,408	--
UHPSI:		
Pharmaceuticals and other expenses	(63,250)	(962,992)
Cash repayments	--	777,941
Overhead revenue	434,857	--
Total Change in Due from John Dempsey Hospital	$ 4,631,222	$ 298,742

	2020	2019
UConn Medical Group:		
Finance Corporation:		
Rental income	$ --	$ 307,785
Cash received for rent	(307,785)	--
UHPSI:		
Pharmaceuticals charged back to UConn Medical Group	5,602,304	2,385,721
Cash received from UConn Medical Group	--	(1,936,118)
Total Change in Due from UConn Medical Group	$ 5,294,519	$ 757,388

Listed in the table below are the components of the change in Due (To) From Malpractice Fund:

	2020	2019
Cash transfers from UConn Health & interest	$ (4,505,699)	$ (5,507,814)
Payments on behalf of UConn Health	2,689,046	5,758,969
Total Change in Due (To) From Malpractice	$ (1,816,653)	$ 251,155

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

As of June 30, 2020 and 2019, the Finance Corporation had the following amounts due from (to) related parties:

	2020	2019
Due from (to) John Dempsey Hospital	$ 186,556	$ (4,444,666)
Due to UConn Health - Malpractice fund	(2,173,675)	(357,022)
Due to UConn Health	(8,369,558)	(2,183,218)
Due from UConn Medical Group	6,051,907	757,388

NOTE 5 – INVESTMENT IN DIRECT FINANCING LEASE

The OP lease, created through the Circle Road Corporation, is a non-cancellable 25 year lease supporting the repayment of the TIAA mortgage. As such, this lease is classified as a direct financing lease. Under this treatment, the underlying capital assets are not recorded separately on the consolidated statements of net position, but the Finance Corporation records its net investment in direct financing lease. The components of the net investment in direct financing lease are shown below as of June 30, 2020 and 2019.

	2020	2019
Net minimum lease payments receivable	$ 276,036,901	$ 290,013,453
Estimated residual value of leased property (unguaranteed)	65,861,269	65,861,269
Less unearned income	(155,955,321)	(166,717,644)
Net investment in direct financing lease	$ 185,942,849	$ 189,157,078

The following schedule provides an analysis of the Circle Road Corporation's cost of the property held for lease under the direct financing lease as of June 30, 2020 and 2019.

	2020	2019
Building	$ 182,613,585	$ 182,613,585
Equipment	18,189,946	18,197,698
Art	104,351	104,351
	$ 200,907,882	$ 200,915,634

NOTE 5 – INVESTMENT IN DIRECT FINANCING LEASE (CONTINUED)

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

NOTE 6 – SUBSEQUENT EVENTS

The Finance Corporation has evaluated subsequent events through December 7, 2020, which represents the date the financial statements were available to be issued. The following matters were noted:

In October 2020, UMG paid UHPSI approximately $2 million toward its Due to UHPSI balance for pharmaceutical purchases as described in Note 4.

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

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

Joint Audit and Compliance Committee
University of Connecticut Health Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The University of Connecticut Health Center Finance Corporation (the Company), which comprise the consolidated statement of net position as of June 30, 2020, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2020.

Internal Control Over Financial Reporting

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

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

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

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

Purpose of This Report

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

Marcum LLP

Hartford, CT
December 7, 2020

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

SCHEDULE I – CONSOLIDATING STATEMENT OF NET POSITION

JUNE 30, 2020

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Assets				
Current Assets				
Cash	$ --	$ --	$ 4,078,789	$ 4,078,789
Malpractice fund	2,173,675	--	--	2,173,675
Inventory	--	--	316,225	316,225
Construction escrow account	--	27,274	--	27,274
Due (to) from subsidiaries	(625,831)	477,162	148,669	--
Due from John Dempsey Hospital	--	--	186,556	186,556
Due from UConn Medical Group	--	--	6,051,907	6,051,907
Net investment in direct financing lease, current portion	--	3,394,817	--	3,394,817
Total Current Assets	1,547,844	3,899,253	10,782,146	16,229,243
Noncurrent Assets				
Net investment in direct financing lease, net of current portion	--	182,548,032	--	182,548,032
Capital assets, net	24,709,312	--	4,730	24,714,042
Total Noncurrent Assets	24,709,312	182,548,032	4,730	207,262,074
Total Assets	$ 26,257,156	$ 186,447,285	$ 10,786,876	$ 223,491,317

See independent auditors' report.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE COPORATION

SCHEDULE I - CONSOLIDATING STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2020

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Liabilities and Net Position				
Current Liabilities				
Accounts payable and accrued expenses	$ 63,167	$ 360,012	$ 729,723	$ 1,152,902
Due to UConn Health – Malpractice fund	2,173,675	--	--	2,173,675
Due to UConn Health	--	--	8,369,558	8,369,558
Advances for construction	6,619	--	--	6,619
Security deposits	--	14,329	--	14,329
Loans payable, current portion	1,568,443	5,535,524	--	7,103,967
Total Current Liabilities	3,811,904	5,909,865	9,099,281	18,821,050
Noncurrent Liabilities				
Loans payable, net of current portion	6,172,885	172,386,718	--	178,559,603
Total Noncurrent Liabilities	6,172,885	172,386,718	--	178,559,603
Total Liabilities	9,984,789	178,296,583	9,099,281	197,380,653
Net Position				
Net investment in capital assets	16,967,984	8,047,881	4,730	25,020,595
Unrestricted (deficit)	(695,617)	102,821	1,682,865	1,090,069
Total Net Position	16,272,367	8,150,702	1,687,595	26,110,664
Total Liabilities and Net Position	$ 26,257,156	$ 186,447,285	$ 10,786,876	$ 223,491,317

See independent auditors' report.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE COPORATION

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

FOR THE YEAR ENDED JUNE 30, 2020

	The University of Connecticut Health Center Finance Corporation	UCHCFC Circle Road Corporation	UConn Health Pharmacy Services, Inc.	Total
Operating Revenues				
Rental income	$ 2,020,230	$ 73,808	$ --	$ 2,094,038
Interest income from direct financing lease	--	10,770,074	--	10,770,074
Contract and other income (net of discounts of $120,036)	--	--	8,342,674	8,342,674
Total Operating Revenues	2,020,230	10,843,882	8,342,674	21,206,786
Operating Expenses				
Professional services	28,400	3,500	--	31,900
Internal contractual support	--	--	1,509,133	1,509,133
Outside agency per diems	--	--	621,575	621,575
Pharmaceuticals/medical supplies	--	--	6,442,989	6,442,989
Rent	--	--	107,765	107,765
Equipment and software leases	--	--	229,256	229,256
Insurance	--	--	750	750
Repairs and maintenance	--	--	15,474	15,474
Interest expense	536,665	8,684,153	--	9,220,818
Depreciation	753,300	--	823	754,123
Other	--	13,141	44,487	57,628
Total Operating Expenses	1,318,365	8,700,794	8,972,252	18,991,411
Operating Income (Loss)	701,865	2,143,088	(629,578)	2,215,375
Nonoperating Expenses				
Loan servicing fee	(6,042)	(5,000)	--	(11,042)
Total Nonoperating Expenses	(6,042)	(5,000)	--	(11,042)
Increase (Decrease) in Net Position	695,823	2,138,088	(629,578)	2,204,333
Net Position - Beginning	15,576,544	6,012,614	2,317,173	23,906,331
Net Position - Ending	$ 16,272,367	$ 8,150,702	$ 1,687,595	$ 26,110,664

See independent auditors' report.