

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

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

JUNE 30, 2024 AND 2023



CPAs | CONSULTANTS | WEALTH ADVISORS

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**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

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THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the consolidated financial position and activities of The University of Connecticut Health Center Finance Corporation and Subsidiaries (the Finance Corporation) as of and for the fiscal years ended June 30, 2024, 2023, and 2022. 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 provides contracting, real estate facilities, and pharmaceutical sales to UConn Health. As authorized by State statute, the Finance Corporation is also UConn Health's vehicle for establishing joint ventures and subsidiary corporations, the records of which are incorporated in these statements.

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, consolidated statements of cash flows, and related notes to the financial statements) present the financial position of the Finance Corporation at June 30, 2024 and 2023, and the results of its operations and financial activities for the fiscal 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, liabilities, and deferred inflows. The consolidated statements of revenues, expenses, and changes in net position reflect the fiscal 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 and deferred inflows) is one way to measure financial health or position. The consolidated statements of cash flows provide relevant information about each fiscal 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, as well as provide additional detail and context for certain transactions.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the Hospital's 340B pharmacy and UMG. In fiscal year 2021, UHPSI began providing pharmaceuticals to outpatients primarily from the various clinics related to UConn Health.

On June 8, 2022, the Finance Corporation entered into a joint venture with OIA of Connecticut, LLC to form UConn Health Imaging, LLC (UHI). UHI will provide additional radiology services off UConn Health's main campus in Farmington in a non-hospital clinical setting. The Finance Corporation retains a 75% ownership interest in UHI. UHI began operations in April 2024.

FINANCIAL HIGHLIGHTS

The Finance Corporation's financial position at June 30, 2024, 2023, and 2022, included assets of \$245.1 million, \$238.3 million, and \$228.5 million, respectively, and liabilities of \$195.2 million, \$191.6 million, and \$191.5 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 fiscal year with operating income of \$3.7 million compared to operating income of \$1.0 million in the prior fiscal year. Current fiscal year income increases were attributable to the impact of expanded operations at UHPSI. The Finance Corporation received working capital transfers from UConn Health in the amount of approximately \$625,000 and \$10.4 million in fiscal years 2024 and 2023, respectively. Total Finance Corporation net position increased \$5.0 million in fiscal 2024, compared to an increase of \$11.4 million in fiscal 2023.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

Summarized components of the Finance Corporation's Statements of Net Position as of June 30, 2024, 2023, and 2022, are presented below.

| | 2024 | 2023 | 2022 |
|---|-----------------------|-------------------|-------------------|
| | <i>(In thousands)</i> | | |
| Summary of assets and liabilities at June 30: | | | |
| Current assets | \$ 33,629 | \$ 29,713 | \$ 19,411 |
| Deposits with vendors | 12,176 | 12,008 | 7,584 |
| Lease receivable - net of current portion | 399 | 1,096 | 2,853 |
| Investment in UHI | - | 1,375 | - |
| Net investment in direct financing lease, net of current portion | 166,798 | 171,067 | 174,791 |
| Property - right-to-use assets, net | 3,849 | 532 | 653 |
| Capital assets, net | <u>28,274</u> | <u>22,478</u> | <u>23,236</u> |
| Total assets | <u>\$ 245,125</u> | <u>\$ 238,269</u> | <u>\$ 228,528</u> |
| Current liabilities | \$ 27,506 | \$ 24,133 | \$ 27,584 |
| Long-term liabilities | <u>167,697</u> | <u>167,450</u> | <u>163,868</u> |
| Total liabilities | <u>\$ 195,203</u> | <u>\$ 191,583</u> | <u>\$ 191,452</u> |
| Deferred inflows - right-to-use assets | \$ 1,096 | \$ 2,871 | \$ 4,646 |
| Net investment in capital assets | \$ 38,974 | \$ 34,238 | \$ 31,039 |
| Minority interest in UHI | 512 | - | - |
| Unrestricted net assets | <u>9,340</u> | <u>9,577</u> | <u>1,391</u> |
| Total net position | <u>48,826</u> | <u>43,815</u> | <u>32,430</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 245,125</u> | <u>\$ 238,269</u> | <u>\$ 228,528</u> |

Individual subsidiary income statements are presented as supplemental information to the consolidated financial statements. Changes in net position, representing the operating activity of the Finance Corporation, primarily composed of revenues and expenses associated with real estate transactions from Circle Road Corporation and the operations of UHPSI and UHI, are summarized below for the fiscal years ended June 30, 2024, 2023, and 2022.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

| | 2024 | 2023 | 2022 |
|--|------------------------|-------------------------|------------------------|
| | <i>(In thousands)</i> | | |
| Summary of revenues, expenses, and nonoperating expenses for the year ended June 30: | | | |
| Operating revenues | \$ 162,451 | \$ 124,556 | \$ 88,952 |
| Operating expenses | <u>(158,720)</u> | <u>(123,534)</u> | <u>(86,281)</u> |
| Operating Income | 3,731 | 1,022 | 2,671 |
| Nonoperating (expenses) revenue | <u>(12)</u> | <u>(12)</u> | <u>(11)</u> |
| Gain before transfers | 3,719 | 1,010 | 2,660 |
| Net Transfers | 625 | 10,375 | - |
| Contributions - minority interest - UHI | 667 | - | - |
| Cumulative effect of change in accounting method GASB 87 | <u>-</u> | <u>-</u> | <u>(353)</u> |
| Increase in net position | <u><u>\$ 5,011</u></u> | <u><u>\$ 11,385</u></u> | <u><u>\$ 2,307</u></u> |

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 2024 amounts compared to fiscal year 2023.

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets included the following:

- *Accounts receivable* – increased from June 30, 2023 to June 30, 2024 by approximately \$1.8 million. Accounts receivable increase is directly attributable to increasing UHPSI sales volume.
- *Lease receivable* – decreased from June 30, 2023 to June 30, 2024 by approximately \$1.6 million due to continued payments from UConn Health to the Finance Corporation for leasing the MSI building and third-party lease payments for retail space in the OP. Presentation of lease receivables is done in accordance with GASB 87.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF ASSETS AND LIABILITIES (CONTINUED)

- *Inventory* – increased from June 30, 2023 to June 30, 2024 by approximately \$1.0 million. Increased inventories represent management's commitment to maintaining certain days on hand ratios while balancing against the challenges of the current pharmaceutical procurement landscape.
- *Investment in UHI* – decreased from June 30, 2023 to June 30, 2024 by approximately \$1.4 million as a result of the inclusion of UHI as a subsidiary of Finance Corporation. The prior year balance of \$1.4 million represents advances for initial startup. In FY24 operational activities began, hence initial advance and current year contributions were eliminated.
- *Net investment in direct financing lease* – decreased from June 30, 2023 to June 30, 2024 by approximately \$4.0 million due to current year lease activity.
- *Property right-to-use assets* – increase from June 30, 2023 to June 30, 2024 by approximately \$3.3 million due to incorporation of UHI lease for office facilities.
- *Capital assets* – increase from June 30, 2023 to June 30, 2024 by approximately \$5.8 million due to UHI acquisition of equipment.

Changes in liabilities included the following:

- *Accounts payable* – increased from June 30, 2023 to June 30, 2024 by approximately \$1.4 million due to amounts related to increased pharmaceutical purchases required by UHPSI's sales growth.
- *Due to/from related parties* – fluctuated from June 30, 2023 to June 30, 2024 by approximately \$4.4 million as a result of 340B revenue and increased supplier deposits due to the Hospital at June 30, 2024. These amounts were offset by repayments received from UMG during the year ended June 30, 2024 for pharmaceuticals obtained from UHPSI.
- *Due to third party payors* – Beginning fiscal year 2023, UHPSI began accruing for future direct and indirect remuneration (DIR) fees based on a percentage of net income. The amount decreased from June 30, 2023 to June 30, 2024 by approximately \$1.6 million as an offset to DIR fees claimed by third parties.
- *Lease payable* – The amount increased from June 30, 2023 to June 30, 2024 by approximately \$7.2 million as result of UHI financing for office facilities.
- *Loans payable* – The amount increased from June 30, 2023 to June 30, 2024 by approximately \$6.8 million principally as result of UHI financing for equipment.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues

Total operating revenues increased from fiscal year ended June 30, 2023 to fiscal year ended June 30, 2024 by approximately \$37.9 million or 30.4%. Significant operating variances are presented below.

- *Pharmaceutical revenue* – increased by approximately \$38.5 million or 34.6%, from the prior fiscal year due to UHPSI's fourth full year of expanded business operations, including filling patient prescriptions to outpatients primarily from UConn Health related clinics. In addition, there has been an expansion in contracts, prescription volume, and prescription offerings.

Operating expenses

Total operating expenses increased from the year ended June 30, 2023 to the year ended June 30, 2024 by approximately \$35.2 million or 28.5%.

- *Outside agency per diems* – increased from the year ended June 30, 2023 to the year ended June 30, 2024 by approximately \$2.0 million or 24.2% due to increased support service costs from Shields Pharmacy of Connecticut II, LLC (Shields) in support of expanded business operations.
- *Pharmaceuticals/ medical supplies* - increased from the year ended June 30, 2023 to the year ended June 30, 2024 by approximately \$32.6 million or 31.4% in support of increased pharmaceutical sales.

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 1, 4 and 6.

The OP construction was completed in 2019. The Finance Corporation continues to lease 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 fiscal years ended June 30, 2024 and 2023, the Finance Corporation made all regularly scheduled payments on the mortgage, thereby reducing the principal amount of the secured mortgage on the OP by \$6,392,771 and \$6,093,203, respectively. For additional information on debt-related activities, see Note 4.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL AND DEBT RELATED ACTIVITIES (CONTINUED)

The Finance Corporation continues to own and lease the UConn Musculoskeletal Institute property to UConn Health. For the fiscal years ended June 30, 2024 and 2023, 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 \$1,896,069 and \$1,779,887, respectively. For additional information on debt-related activities, see Note 4.

RELATED PARTIES

During fiscal years 2024 and 2023, UHPSI was charged the cost of pharmacy personnel and other operating expenses while earning revenues from UConn Health for pharmaceuticals sold. The net result of these transactions was an increase to amounts payable to UConn Health of approximately \$2.4 million and \$2.3 million, respectively. During fiscal years 2024 and 2023, UHPSI repaid UConn Health approximately \$4.2 million and \$2.5 million, respectively.

During fiscal years 2024 and 2023, UHPSI received pharmacy overhead revenue from the Hospital in the amount of approximately \$212,000 and \$898,000, respectively. Beginning in fiscal year 2021, the Hospital allocated to UHPSI its share of UConn Health's institutional deposit with AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. The deposit was approximately \$12.2 million at June 30, 2024 and \$12.0 million at June 30, 2023. For the fiscal years ended June 30, 2024 and 2023, UHPSI repaid the Hospital approximately \$37.5 million and \$25.0 million, respectively.

During fiscal years 2024 and 2023, UHPSI had pharmaceutical sales to UMG of approximately \$8.3 million and \$6.7 million, respectively. UHPSI received approximately \$7.6 million and \$6.6 million from UMG, respectively, in fiscal years 2024 and 2023 for current and prior year sales. For additional information on related parties, see Note 5.

FISCAL YEAR 2025 OUTLOOK

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

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2025 OUTLOOK (CONTINUED)

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

As we look forward to fiscal year 2025, UConn Health faces unique challenges as the world continues to move beyond the COVID pandemic. UConn Health continues to see increasing clinical volumes while dealing with staffing scarcity and inflationary pressures. Supply chains though stronger have not yet achieved pre-pandemic reliability. In addition, COVID continues to undulate while other emerging public health threats such as bird flu and monkeypox bear watching. Public sentiment continues to trend towards decreasing healthcare spending at a time when providers remain vulnerable. At the same time, an increasing focus on health equity and minimizing the impacts of health disparities in the general population puts additional focus on our ability to fulfill community need. UConn Health remains diligent in monitoring changing clinical and business models as it navigates changing operational, social, and regulatory landscapes.

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

The Finance Corporation is dependent upon both the Hospital and UMG for the lease payments that support the Musculoskeletal Institute and OP mortgage payments. It also depends on its relationships with these entities to maximize UHPSI's business opportunities. UHPSI's sales have risen as the business expanded its 340B pharmacy sales and offered services to patients in more clinical specialties. UConn Health's management expects slower clinical growth as UHPSI's business model reaches maturity.

A combination of institution-wide financial initiatives and additional State funding allowed UConn Health to balance its 2024 spending plan. The new year brings its own challenges. As State and Federal governments reduce spending, funding is at the forefront of concerns. Public sentiment towards healthcare and education spending by the State has eroded and the focus has shifted to affordability, tax relief, and government sustainability. UConn Health begins fiscal 2025 with a projected deficit and has developed financial improvement programs to bring the budget into balance.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER FINANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2025 OUTLOOK (CONTINUED)

Clinical volumes have rebounded and greatly exceed pre-pandemic volumes straining delivery mechanisms and demanding increased focus on space, staff, and resource utilization. Volume trends at UConn Health, in almost every aspect, exceed the experience of other region and statewide hospital averages now for three straight periods. The Hospital is working maximize all its operating rooms including opening its second hybrid operating room expanding the total number of OR in the hospital to thirteen. JDH has expanded into the CT Tower to open all of its currently licensed beds, reopening the 7th floor for patient care in early 2024. UMG continues to add and expand existing satellite locations both around the main UConn Health campus and throughout the State. A new home infusion program will open in 2025, while new programs in imaging and wound care, opened at the end of the past year. Adding and replacing skilled labor has become increasingly difficult. Growing the skills of newer workers takes longer in hybrid environments. Competition for doctors, nurses, and other clinical specialties is intense. Wage and general inflation remain an issue as it continues to outpace payment increases. The global supply chain continues to work towards stabilization. Ports, rail transit, and trucking have stabilized during 2024 but are vulnerable to additional disruptions.

A recent study commissioned by the Governor of the State of Connecticut found that UConn Health will need to expand its overall scale to compete in a consolidating healthcare landscape. UConn Health remains committed to strategic growth both organically and through partnerships. We will continue to explore all options over the upcoming year as we seek to bring the best in research, education, and clinical care to the residents of the State of Connecticut.

CONTACTING FINANCE CORPORATION'S FINANCIAL MANAGEMENT

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



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of The University of Connecticut Health Center Finance Corporation (Finance Corporation or Company), a component unit of the State of Connecticut, as of and for the years ended June 30, 2024 and 2023, and the related notes to the consolidated financial statements, which collectively comprise the Finance Corporation's basic consolidated financial statements as listed in the table of contents.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the Finance Corporation as of June 30, 2024 and 2023, and the respective changes in net position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements for UConn Health Imaging, LLC, a 75% owned entity, which statements reflect assets of \$11,058,183 as of June 30, 2024, and total revenues of \$225,283 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Finance Corporation, is based solely on the report of the other auditors.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the Finance Corporation’s consolidated financial statements. The accompanying consolidating supplementary information on pages 43 through 45 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating supplementary information is fairly stated, in all material respects, in relation to the consolidated 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 3, 2024, on our consideration of The University of Connecticut Health Center Finance Corporation’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 Finance Corporation’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 Finance Corporation’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

West Hartford, Connecticut
December 3, 2024

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

CONSOLIDATED STATEMENTS OF NET POSITION

JUNE 30, 2024 AND 2023

| | 2024 | 2023 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 15,989,090 | \$ 15,915,421 |
| Malpractice Fund | 1,685,493 | 778,942 |
| Accounts receivable, net of allowances for bad debt of \$337,925 and \$0 (Note 7) at June 30, 2024 and 2023 respectively (Note 7) | 5,430,145 | 3,609,689 |
| Lease receivable - current portion (Note 2) | 836,382 | 1,775,505 |
| Inventory | 4,013,170 | 2,986,435 |
| Due from UConn Medical Group (Note 5) | 1,371,899 | 617,544 |
| Prepaid expenses | 37,090 | 799 |
| Net investment in direct financing lease, current portion (Note 6) | 4,265,486 | 4,028,844 |
| Total Current Assets | 33,628,755 | 29,713,179 |
| Noncurrent Assets | | |
| Deposits with vendors | 12,176,334 | 12,007,648 |
| Lease receivable - net of current portion (Note 2) | 399,075 | 1,095,480 |
| Investment in UHI | - | 1,375,000 |
| Net investment in direct financing lease, net of current portion (Note 6) | 166,797,628 | 171,067,095 |
| Property - right-to-use assets, net (Note 3) | 3,848,575 | 532,043 |
| Capital assets, net (Note 3) | 28,274,331 | 22,478,171 |
| Total Noncurrent Assets | 211,495,943 | 208,555,437 |
| Total Assets | \$ 245,124,698 | \$ 238,268,616 |

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, 2024 AND 2023

| | 2024 | 2023 |
|--|-----------------------|-----------------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 7,381,444 | \$ 6,000,621 |
| Due to UConn Health - Malpractice Fund (Note 5) | 1,685,493 | 778,942 |
| Due to UConn Health (Note 5) | 466,952 | 2,321,675 |
| Due to John Dempsey Hospital, current portion (Note 5) | 8,895,996 | 4,641,730 |
| Due to third party payors | 385,049 | 1,963,898 |
| Lease payable, current portion (Note 4) | 880,281 | 137,525 |
| Loans payable, current portion (Note 4) | 7,810,965 | 8,288,841 |
| Total Current Liabilities | 27,506,180 | 24,133,232 |
| Noncurrent Liabilities | | |
| Due to John Dempsey Hospital, net of current portion (Note 5) | 12,176,334 | 12,007,648 |
| Lease payable, net of current portion (Note 4) | 6,935,863 | 522,910 |
| Loans payable, net of current portion (Note 4) | 148,585,166 | 154,919,174 |
| Total Noncurrent Liabilities | 167,697,363 | 167,449,732 |
| Total Liabilities | 195,203,543 | 191,582,964 |
| Deferred Inflows | | |
| Deferred inflows - right-to-use assets | 1,095,480 | 2,870,985 |
| Net Position | | |
| Net investment in capital assets | 38,973,745 | 34,237,703 |
| Minority interest in UHI | 511,510 | - |
| Unrestricted net assets | 9,340,420 | 9,576,964 |
| Total Net Position | 48,825,675 | 43,814,667 |
| Total Liabilities, Deferred Inflows and Net Position | \$ 245,124,698 | \$ 238,268,616 |

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, 2024 AND 2023

| | 2024 | 2023 |
|--|----------------------|----------------------|
| Operating Revenues | | |
| Interest income from right-to-use assets | \$ 138,223 | \$ 255,081 |
| Lease revenue from right-to-use assets | 1,774,805 | 1,774,805 |
| Rental Income | 273,225 | - |
| Interest income from direct financing lease | 9,947,708 | 10,171,221 |
| Contract and other income | 270,715 | 1,025,232 |
| Imaging revenue, net | 225,282 | - |
| Pharmaceutical revenue, net (Note 7) | 149,821,597 | 111,329,599 |
| Total Operating Revenues | 162,451,555 | 124,555,938 |
| Operating Expenses | | |
| Professional services | 337,782 | 42,813 |
| Internal contractual support | 2,160,457 | 2,033,041 |
| Outside agency per diems | 10,197,746 | 8,209,706 |
| Pharmaceuticals/medical supplies | 136,787,880 | 104,139,390 |
| Equipment and software leases | 108,017 | 88,455 |
| Insurance, rent, utilities, repairs, and maintenance | 35,516 | 750 |
| Interest expense | 7,862,649 | 8,118,817 |
| Depreciation | 899,393 | 757,578 |
| Amortization - right-to-use assets | 176,279 | 120,911 |
| Other | 154,628 | 22,482 |
| Total Operating Expenses | 158,720,347 | 123,533,943 |
| Operating Income | 3,731,208 | 1,021,995 |
| Nonoperating Expense | | |
| Loan servicing fees | (11,867) | (11,892) |
| Total Nonoperating Expense | (11,867) | (11,892) |
| Gain before transfers | 3,719,341 | 1,010,103 |
| Net Transfers from UConn | | |
| Health - Unrestricted (Note 5) | 625,000 | 10,375,000 |
| Contributions for minority interest - UHI | 666,667 | - |
| Increase in Net Position - Unrestricted | 5,011,008 | 11,385,103 |
| Net Position - Beginning of year | 43,814,667 | 32,429,564 |
| Net Position - Ending | \$ 48,825,675 | \$ 43,814,667 |

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, 2024 AND 2023

| | 2024 | 2023 |
|--|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Cash paid to suppliers, contractors and others | \$(120,940,003) | \$(100,620,082) |
| Lease payments received | 2,046,274 | 2,046,274 |
| Lease payments and interest | (122,626) | - |
| Cash received for contract and other income | 146,584,063 | 113,838,504 |
| Cash returned to related parties | (34,143,313) | (20,807,433) |
| Cash paid for administrative expenses | (40,562) | (39,416) |
| Net Cash Used in Operating Activities | (6,616,167) | (5,582,153) |
| Cash Flows from Investing Activities | | |
| Investment in UHI | (625,000) | (1,375,000) |
| Payments for purchase of capital assets | (1,593,172) | - |
| Change in value of direct financing lease | - | 2,682 |
| Net Cash Used in Investing Activities | (2,218,172) | (1,372,318) |
| Cash Flows from Capital Financing Activities | | |
| Direct financing lease payments received (including \$9,947,708 and \$10,171,221 of interest, respectively) | 13,976,552 | 13,976,552 |
| Transfers from UConn Health | 625,000 | 10,375,000 |
| Proceeds from loans | 289,766 | - |
| Members' contributions | 2,666,667 | - |
| Repayments of capital debt | (8,377,265) | (7,873,090) |
| Payment for lease liability | (261,596) | (137,851) |
| Loan servicing fees | (11,116) | (11,142) |
| Net Cash Provided by Capital Financing Activities | 8,908,008 | 16,329,469 |
| Net Increase in Cash | 73,669 | 9,374,998 |
| Cash - Beginning | 15,915,421 | 6,540,423 |
| Cash - Ending | \$ 15,989,090 | \$ 15,915,421 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities | | |
| Non cash portion of interest for right-to-use assets | \$ 100,958 | \$ 25,347 |
| Right-to-use assets acquired by entering into lease agreements | \$ 3,492,811 | \$ - |

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, 2024 AND 2023

| | 2024 | 2023 |
|---|-----------------------|-----------------------|
| Reconciliation of Operating Income to Net Cash | | |
| Used in Operating Activities | | |
| Operating income | \$ 3,731,208 | \$ 1,021,995 |
| Depreciation | 899,393 | 757,578 |
| Amortization | 176,279 | 120,911 |
| Interest on right-to-use assets | 100,958 | 25,347 |
| Direct financing lease interest payments received | (9,947,708) | (10,171,221) |
| Changes in operating assets and liabilities: | | |
| Inventory | (1,026,735) | (1,072,491) |
| Patient & contract receivables | (1,820,456) | 311,058 |
| Lease receivable | 1,635,528 | 1,791,893 |
| Deposits to vendors | (168,686) | (4,423,864) |
| Due from UConn Health | (1,854,723) | (218,244) |
| Due from UConn Medical Group | (754,355) | (72,027) |
| Prepaid | (36,291) | (799) |
| Accounts payable and accrued expenses, excluding payables for capital assets | 1,380,823 | 1,731,345 |
| Due to John Dempsey Hospital | 4,422,952 | 4,436,820 |
| Due to third party payors | (1,578,849) | 1,963,898 |
| Deferred inflows - right-to-use assets | (1,775,505) | (1,775,504) |
| Net Cash Used in Operating Activities | \$ (6,616,167) | \$ (5,573,305) |

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

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

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 respective designees. 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 not be 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.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

REPORTING ENTITY (CONTINUED)

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

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

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

On June 8, 2022, the Finance Corporation entered into an agreement with OIA of Connecticut, LLC to form UConn Health Imaging, LLC (UHI). UHI will provide additional radiology services off UConn Health's main campus in Farmington in a non-hospital clinic setting. The Finance Corporation retains a 75% ownership interest in UHI. UHI began operation April 2024. UHI is consolidated into the Finance Corporation financial statements with a corresponding minority interest in the net assets section of the Statement of Net Position.

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

The Finance Corporation is a component of the State of Connecticut 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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

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.

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, liabilities, deferred inflows of resources, and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial statement areas where management applies the use of estimates consist primarily of the allowance for uncollectible accounts, contractual allowances, direct and indirect remuneration (DIR) fees, certain estimates related to the valuation of the direct financing lease, right-to-use assets, lease liabilities, and malpractice.

CASH

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

CONTRACT AND OTHER INCOME

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

As described in Note 5, UHPSI provides pharmaceuticals to UMG, and records revenue on the accrual basis of accounting in the period the related services are rendered.

The Hospital pharmacy allocates overhead revenue related to certain pharmaceutical sales to UHPSI on a monthly basis. This revenue is included in contract and other income on the consolidated statements of revenues, expenses, and changes in net position. Additional information on this can be found in Note 5.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE

UHPSI's business includes filling patient prescriptions to outpatients primarily from UConn Health related clinics.

A uniform pricing structure is used for billing to Pharmacy Benefit Managers (PBMs) subject to contractual allowances as negotiated by the Pharmacy Services Administrative Organization (PSAO). Contractual allowances will reduce the amount received and will vary based on rates, such as Medicare, Medicaid, and commercial contracts. Pharmaceutical revenues, net of contractual allowances and direct and indirect remuneration (DIR) fees, are recognized on the accrual basis of accounting when prescriptions are filled. Accounts receivable from patients, third-party payers, and others for pharmaceutical purchases represent the net amounts owed to UHPSI for which payment had not been received as of June 30, 2024 and 2023.

UHPSI PHARMACY MANAGEMENT

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

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

340B PROGRAM

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

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

340B PROGRAM (CONTINUED)

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

Income Taxes - UHI

No provision for taxes on income is made in the financial statements of UHI. Taxable income or losses are allocated to members for inclusion in their respective tax returns.

INVENTORY

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

DEPOSITS WITH VENDORS

UHPSI is required to keep an amount on deposit with AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. The deposit is based on a 90-day purchasing history and a 45-day amount is required to be on deposit with AmerisourceBergen. These deposits are non-interest bearing and are considered subject to the credit risk of the supplier.

As of June 30, 2024 and 2023, amounts on deposit were approximately \$12.2 million and \$12.0 million, respectively. As disclosed in Note 5, the deposits with AmerisourceBergen were funded through the Hospital.

DESCRIPTION OF LEASING ARRANGEMENTS

The OP lease, effected through the Circle Road Corporation, is a direct financing lease for both the OP building and its 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 and Note 6 for additional information.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

Circle Road Corporation is a lessor for office space to a third party. Circle Road Corporation has recorded a lease receivable and a deferred inflows of resources based on the present value of the future lease payments expected to be received during the contracted lease term. The deferred inflow of resources is amortized evenly over the life of the lease.

UHI engages in lease agreements to meet operational needs. UHI lease contracts generally relate to buildings. UHI recognizes a lease liability, and an intangible right-to-use (RTU) lease asset based on the present value of future lease payments over the contracted term of the lease. RTU lease assets are amortized over the term of the lease, as UHI is not expected to lease assets beyond the underlying asset's useful life.

Finance Corporation routinely engages in lease arrangements to meet operational needs of UConn Health and UHPSI. The lease agreements relate to office space. For agreements in which Finance Corp is the lessee, it records a lease liability and an intangible right-to-use lease asset based on the present value of future lease payments over the term of the lease. Lease right-to-use assets net of amortization and liabilities are reported as current and non-current in the statement of net position. The right-to-use assets are amortized over the term of the lease or the estimated useful life of the asset. Finance Corporation is a lessor providing space in the MSI building to the Hospital, UMG, and UConn Health.

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

The Finance Corporation elected to record the value of all leased assets in accordance with GASB 87 for lease reporting.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

DEFERRED INFLOWS OF RESOURCES

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

LEASE INCOME AND INTEREST INCOME

Lease income is recognized over the lease 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.

INVESTMENT IN UHI

On June 8, 2022, the Finance Corporation entered into an agreement with OIA of Connecticut, LLC to form UHI. UHI will provide additional radiology services off UConn Health’s main campus in Farmington in a non-hospital clinic setting. The Finance Corporation will retain a 75% ownership interest in UHI and funded its initial capital call to the new corporation in September of 2022 of \$1,375,000 with additional contributions in fiscal year 2024 in the amount of \$625,000. Operational activities began in fiscal year 2024, hence the initial advance and current year contributions were eliminated.

MALPRACTICE FUND

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

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

CAPITAL ASSETS AND INTANGIBLE 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. Intangible assets are comprised of right-to-use assets under lease agreements for UHPSI and UHI space.

DUE TO THIRD PARTY PAYORS

Beginning in fiscal year 2023, UHPSI began accruing for future direct and indirect remuneration (DIR) fees. These fees are charged by various Pharmacy Benefit Managers (PBMs) based on differing metrics. They are generally retroactive and occur monthly. Effective January 2024, DIR fees are being taken at time of adjudication and claims detail in real time. Retroactive takeback is expected to end in 2025. The accrual as of June 2023 was based on a percentage of net income. The amount accrued at June 2024 and 2023 was \$385,049 and \$1,963,898, respectively.

NET POSITION

Net position is classified in three components. Net investment in capital assets consists of capital and right-to-use assets net of accumulated depreciation/amortization, 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. Minority interest represents the twenty-five percent stake in UHI belonging Finance Corporation's partner. All other assets less liabilities are classified as unrestricted.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective for the fiscal year ended June 30, 2024, GASB issued the following pronouncements that were adopted for this report: Paragraphs 4 through 10 of GASB Statement No. 99, *Omnibus 2022*, and GASB Statement No. 100, *Accounting Changes and Error Corrections*. The adoption of other pronouncements did not have a material impact on the financial statements.

UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model by amending certain previously required disclosures. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement is effective for fiscal years beginning after December 15, 2023. The Finance Corporation is currently evaluating the impact this standard will have on its financial statements.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement is effective for fiscal years beginning after June 15, 2024. The Finance Corporation is currently evaluating the impact this standard will have on its financial statements.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement is effective for fiscal years beginning after June 15, 2025. The Finance Corporation is currently evaluating the impact this standard will have on its financial statements.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 2 – LEASE RECEIVABLE

As described in Note 1, receivables from leases to UConn Health (for the MSI building) and to a third party (for space in the OP) are based on the present value of the future payments and are as follows:

| Lease receivables: | June 30, 2023 | | | June 30, 2024 | Amount due |
|-------------------------------------|---------------------|------------------|----------------------|---------------------|----------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> | <u>within 1 year</u> |
| Buildings and building improvements | <u>\$ 2,870,985</u> | <u>\$ -</u> | <u>\$(1,635,528)</u> | <u>\$ 1,235,457</u> | <u>\$ 836,382</u> |

| Lease receivables: | June 30, 2022 | | | June 30, 2023 | Amount due |
|-------------------------------------|---------------------|------------------|----------------------|---------------------|----------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> | <u>within 1 year</u> |
| Buildings and building improvements | <u>\$ 4,662,878</u> | <u>\$ -</u> | <u>\$(1,791,893)</u> | <u>\$ 2,870,985</u> | <u>\$ 1,775,505</u> |

Lease payments to be received are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Lease Receivables</u> | |
|-----------------------------------|--------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2025 | \$ 836,382 | \$ 32,584 |
| 2026 | 9,600 | 18,982 |
| 2027 | 10,072 | 18,510 |
| 2028 | 10,568 | 18,015 |
| 2029 | 11,087 | 17,495 |
| 2030-34 | 74,250 | 77,768 |
| 2035-39 | 107,243 | 56,185 |
| 2040-44 | 150,148 | 25,546 |
| 2045-49 | 26,107 | 526 |
| | <u>\$ 1,235,457</u> | <u>\$ 265,611</u> |

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets as of June 30, 2024 and 2023 consisted of the following:

| | 2024 | 2023 |
|-------------------------------------|---------------|---------------|
| Buildings | \$ 32,247,901 | \$ 29,730,870 |
| Land | 6,593,084 | 6,593,084 |
| Equipment | 4,086,595 | 37,983 |
| Software | 129,910 | - |
| Total capital and intangible assets | 43,057,490 | 36,361,937 |
| Less accumulated depreciation | 14,783,159 | 13,883,766 |
| Capital assets, net | \$ 28,274,331 | \$ 22,478,171 |
| | | |
| | 2024 | 2023 |
| Right-to-use assets - buildings | \$ 4,318,148 | \$ 825,337 |
| Right-to-use assets - equipment | 60,386 | 60,386 |
| Total right-to-use assets | 4,378,534 | 885,723 |
| Less: accumulated amortization | 529,959 | 353,680 |
| Right-to-use assets - net | \$ 3,848,575 | \$ 532,043 |

As described in Note 1, the OP is leased to UConn Health under the terms of a direct financing lease.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE ASSETS (CONTINUED)

Capital assets and depreciation activity for the fiscal years ended June 30, 2024 and 2023 were as follows:

| | 2023 | Additions | Deductions | 2024 |
|-------------------------------------|----------------------|---------------------|-------------|----------------------|
| Buildings | \$ 29,730,870 | \$ 2,517,031 | \$ - | \$ 32,247,901 |
| Land | 6,593,084 | - | - | 6,593,084 |
| Equipment | 37,983 | 4,048,612 | - | 4,086,595 |
| Software | - | 129,910 | - | 129,910 |
| Total capital and intangible assets | <u>\$ 36,361,937</u> | <u>\$ 6,695,553</u> | <u>\$ -</u> | <u>\$ 43,057,490</u> |

| | 2022 | Additions | Deductions | 2023 |
|-------------------------------------|----------------------|-------------|--------------------|----------------------|
| Buildings | \$ 29,730,870 | \$ - | \$ - | \$ 29,730,870 |
| Land | 6,593,084 | - | - | 6,593,084 |
| Equipment | 50,905 | - | (12,922) | 37,983 |
| Total capital and intangible assets | <u>\$ 36,374,859</u> | <u>\$ -</u> | <u>\$ (12,922)</u> | <u>\$ 36,361,937</u> |

Related information on accumulated depreciation for the years ended June 30, 2024 and 2023 was as follows:

| | 2023 | Additions | Deductions | 2024 |
|--------------------------------|----------------------|-------------------|-------------|----------------------|
| Buildings | \$ 13,874,540 | \$ 795,976 | \$ - | \$ 14,670,516 |
| Equipment | 9,226 | 101,822 | - | 111,048 |
| Software | - | 1,595 | - | 1,595 |
| Total accumulated depreciation | <u>\$ 13,883,766</u> | <u>\$ 899,393</u> | <u>\$ -</u> | <u>\$ 14,783,159</u> |

| | 2022 | Additions | Deductions | 2023 |
|--------------------------------|----------------------|-------------------|--------------------|----------------------|
| Buildings | \$ 13,121,240 | \$ 753,300 | \$ - | \$ 13,874,540 |
| Equipment | 17,870 | 4,278 | (12,922) | 9,226.00 |
| Total accumulated depreciation | <u>\$ 13,139,110</u> | <u>\$ 757,578</u> | <u>\$ (12,922)</u> | <u>\$ 13,883,766</u> |

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE ASSETS (CONTINUED)

Activity for the Right-to-use assets for the fiscal year ended June 30, 2024 and 2023 was as follows:

| | 2023 | Additions | Deductions | 2024 |
|---------------------------|-------------------|---------------------|-------------|---------------------|
| Right-to-use buildings | \$ 825,337 | \$ 3,492,811 | \$ - | \$ 4,318,148 |
| Right-to-use equipment | <u>60,386</u> | <u>-</u> | <u>-</u> | <u>60,386</u> |
| Total right-to-use assets | <u>\$ 885,723</u> | <u>\$ 3,492,811</u> | <u>\$ -</u> | <u>\$ 4,378,534</u> |

| | 2022 | Additions | Deductions | 2023 |
|---------------------------|-------------------|-------------|-------------|-------------------|
| Right-to-use buildings | \$ 825,337 | \$ - | \$ - | \$ 825,337 |
| Right-to-use equipment | <u>60,386</u> | <u>-</u> | <u>-</u> | <u>60,386</u> |
| Total right-to-use assets | <u>\$ 885,723</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 885,723</u> |

Intangible assets and amortization activity for the fiscal years ended June 30, 2024 and 2023 were as follows:

| | 2023 | Additions | Deductions | 2024 |
|--------------------------------|-------------------|-------------------|-------------|-------------------|
| Right-to-use buildings | \$ 326,506 | \$ 164,202 | \$ - | \$ 490,708 |
| Right-to-use equipment | <u>27,174</u> | <u>12,077</u> | <u>-</u> | <u>39,251</u> |
| Total accumulated amortization | <u>\$ 353,680</u> | <u>\$ 176,279</u> | <u>\$ -</u> | <u>\$ 529,959</u> |

| | 2022 | Additions | Deductions | 2023 |
|--------------------------------|-------------------|-------------------|-------------|-------------------|
| Right-to-use buildings | \$ 217,672 | \$ 108,834 | \$ - | \$ 326,506 |
| Right-to-use equipment | <u>15,097</u> | <u>12,077</u> | <u>-</u> | <u>27,174</u> |
| Total accumulated amortization | <u>\$ 232,769</u> | <u>\$ 120,911</u> | <u>\$ -</u> | <u>\$ 353,680</u> |

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 4 – NONCURRENT LIABILITIES

The Finance Corporation routinely leases various facilities and equipment instead of purchasing the assets. The contracts include variable payments, residual value guarantees or termination penalties that are not known or certain to be exercised at the time of the lease liability valuation. These are recognized as expenses in the period that they occur. For the fiscal years ended June 30, 2024 and 2023, the Finance Corporation recognized expense for lease variable payments related to common area maintenance and property taxes of \$0 and \$118, respectively. There were no termination penalties or residual guarantee payments expensed for the fiscal years ended June 30, 2024 or 2023.

The Finance Corporation's outstanding notes from direct borrowings related to business-type activities of \$156,396,132 and \$163,208,015 as of June 30, 2024 and 2023, 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. As of June 30, 2024, there were no instances of default under these agreements.

The Finance Corporation has a loan agreement held by KeyBank Real Estate Capital (KeyBank), which financed the construction of the UConn Musculoskeletal Institute. The Finance Corporation through its subsidiary, the Circle Road Corporation, has a mortgage with TIAA, which financed the construction of the OP.

UHI has a construction loan held by Siemens, which financed the installation of equipment located at 5 Munson Road, Farmington, CT.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 4 – NONCURRENT LIABILITIES (CONTINUED)

Changes in long-term obligations for the years ended June 30, 2024 and 2023, respectively were as follows:

| | June 30, 2023 | | | June 30, 2024 | Amounts due within 1 year |
|--|-----------------------|---------------------|-----------------------|-----------------------|---------------------------------|
| | Balance | Additions | Reductions | Balance | |
| Right-to-Use Lease Liabilities | \$ 660,435 | \$ 7,485,960 | \$ (330,251) | \$ 7,816,144 | \$ 880,281 |
| Business-type activities: | | | | | |
| Notes from Direct Borrowings - | | | | | |
| Secured mortgage - Capital Lease Funding (Key Bank), principal and interest payments began January 10, 2004 and continue until November 10, 2024, with interest at 6.34%. | \$ 2,722,174 | \$ - | \$ (1,896,069) | \$ 826,105 | \$ 826,105 |
| Secured note - Siemens, principal and interest began February 2024 and continues until January 2029 with interest at 6.91%. | - | 1,565,383 | (88,426) | \$ 1,476,957 | \$ 277,793 |
| Secured mortgage - TIAA, 25 year, 4.809% coupon. Principal and interest payments began on April 15, 2015 and will continue until March 15, 2040. | 160,485,841 | - | (6,392,772) | 154,093,069 | 6,707,067 |
| Total Notes from Direct Borrowings | <u>163,208,015</u> | <u>1,565,383</u> | <u>\$ (8,377,267)</u> | <u>156,396,131</u> | <u>\$ 7,810,965</u> |
| Total Long-Term Liabilities | <u>\$ 163,868,450</u> | <u>\$ 9,051,343</u> | <u>\$ (8,707,518)</u> | <u>\$ 164,212,275</u> | <u>\$ 8,691,246</u> |
| | June 30, 2022 | | | June 30, 2023 | Amounts due within 1 year |
| | Balance | Additions | Reductions | Balance | |
| Right-to-use Lease Liabilities | \$ 772,187 | \$ - | \$ (111,752) | \$ 660,435 | \$ 137,525 |
| Business-type activities: | | | | | |
| Notes from Direct Borrowings - | | | | | |
| Secured mortgage - Capital Lease Funding (Key Bank), principal and interest payments began January 10, 2004 and continue until November 10, 2024, with interest at 6.34%. | \$ 4,502,061 | \$ - | \$ (1,779,887) | \$ 2,722,174 | \$ 1,896,069 |
| Secured mortgage - TIAA, 25 year, 4.809% coupon. Principal and interest payments began on April 15, 2015 and will continue until March 15, 2040. | 166,579,044 | - | (6,093,203) | 160,485,841 | 6,392,772 |
| Total Notes from Direct Borrowings | <u>171,081,105</u> | <u>-</u> | <u>(7,873,090)</u> | <u>163,208,015</u> | <u>8,288,841</u> |
| Total Long-Term Liabilities | <u>\$ 171,853,292</u> | <u>\$ -</u> | <u>\$ (7,984,842)</u> | <u>\$ 163,868,450</u> | <u>\$ 8,426,366</u> |

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 4 – NONCURRENT LIABILITIES (CONTINUED)

Debt service requirements on long-term debt at June 30, 2024 are as follows:

| <u>Year Ending June 30,</u> | Business-Type Activities | |
|------------------------------|------------------------------|-----------------|
| | Notes from Direct Borrowings | |
| | <u>Principal</u> | <u>Interest</u> |
| 2025 | \$ 7,810,965 | \$ 7,370,286 |
| 2026 | 7,334,422 | 7,007,586 |
| 2027 | 7,701,609 | 6,640,399 |
| 2028 | 8,087,319 | 6,254,689 |
| 2029 | 8,367,705 | 5,850,585 |
| 2030-2034 | 47,033,459 | 22,820,800 |
| 2035-2039 | 59,789,420 | 10,064,839 |
| Thereafter | 10,271,232 | 206,907 |
| Total from direct borrowings | \$ 156,396,131 | \$ 66,216,091 |

The Finance Corporation recorded interest expense of \$7,841,846 and \$8,093,470, respectively, during the years ended June 30, 2024 and 2023.

The following is a schedule by fiscal year of future minimum payments due for leases together with the present value of the net minimum payments due as of June 30, 2024:

| <u>Year Ending June 30,</u> | Lease Liabilities | |
|-----------------------------|-------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2025 | \$ 880,281 | \$ 391,894 |
| 2026 | 935,518 | 338,479 |
| 2027 | 986,130 | 281,806 |
| 2028 | 987,764 | 221,864 |
| 2029 | 820,905 | 162,190 |
| 2030-2034 | 779,634 | 610,934 |
| 2035-2039 | 1,087,729 | 410,307 |
| 2040-2044 | 1,338,183 | 135,905 |
| Total lease liability | \$ 7,816,144 | \$ 2,553,379 |

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 5 – 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 the MSI building to entities from UConn Health under operating agreement that renew annually.

Through UHPSI, the Finance Corporation also engages in transactions with UConn Health. UHPSI provides pharmaceuticals to patients from the Hospital and UMG while obtaining personnel and other services vital for operations from UConn Health.

UHI has arranged with a related party to OIA for the services of personnel for the operation of the UHI. The amount for these services is reported as part of Professional Services in the Consolidated Statements of Revenues and Expense, and Changes in Net Position in the amount of \$215,666 as of June 30, 2024.

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

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

| <u>Year Ending June 30,</u> | Outpatient Pavilion (a) | UConn Musculoskeletal Institute |
|-----------------------------|----------------------------|---------------------------------------|
| 2025 | \$ 13,975,852 | \$ 841,763 |
| 2026 | 13,975,852 | - |
| 2027 | 13,975,852 | - |
| 2028 | 13,975,852 | - |
| 2029 | 13,975,852 | - |
| Thereafter | <u>150,240,407</u> | <u>-</u> |
| | <u>\$ 220,119,667</u> | <u>\$ 841,763</u> |

(a) OP amounts are due under a non-cancellable direct financing lease with UConn Health. Additional details can be found in Note 6.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

Listed in the tables below are material transactions with related parties and the components of the Finance Corporation to show the changes in amounts due (to) from each entity as of June 30, 2024 and 2023. Certain transactions that were settled during the fiscal years with transfers, payments or cash receipts and did not result in a receivable or payable balance at June 30 have been excluded from these tables. The paragraphs that follow describe the related party transactions that are summarized in the aforementioned tables.

DUE (TO) UCONN HEALTH

| | 2024 | 2023 |
|--|-----------------------|-----------------------|
| Due (to) UConn Health - Beginning Balance: | \$ (2,321,675) | \$ (2,539,919) |
| <u>UHPSI:</u> | | |
| Internal contractual support and other expenses, net of pharmaceuticals sold | (2,471,449) | (2,281,756) |
| Cash repayments to UConn Health | 4,385,208 | 2,500,000 |
| Cash received from UConn Health | (59,036) | - |
| Total Change in Due (to) UConn Health | \$ 1,854,723 | \$ 218,244 |
| Due (to) UConn Health - Ending Balance: | \$ (466,952) | \$ (2,321,675) |

During fiscal years 2024 and 2023, UHPSI incurred costs for pharmacy personnel and other operating expenses offset by pharmaceutical revenues from sales to UConn Health, netting to an increase in the amount owed to UConn Health of approximately \$2.5 million and \$2.3 million, respectively. During the years ended June 30, 2024 and 2023, UHPSI repaid UConn Health approximately \$4.3 million and \$2.5 million, respectively.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE (TO) JOHN DEMPSEY HOSPITAL

| | 2024 | 2023 |
|---|-----------------------------------|-----------------------------------|
| Due (to) John Dempsey Hospital - Beginning Balance: | \$ (16,649,378) | \$ (12,212,558) |
| <u>Circle Road Corporation:</u> | | |
| Administrative expense | (2,100) | - |
| <u>UHPSI:</u> | | |
| Deposits with vendors | (168,686) | (4,423,865) |
| Pharmaceuticals and other expenses | (18,724) | 16,241 |
| 340B revenue | (41,945,620) | (25,927,521) |
| Cash repayments | 37,500,000 | 25,000,000 |
| Overhead revenue received | <u>212,178</u> | <u>898,325</u> |
| Total Change in Due (to) John Dempsey Hospital | <u>\$ (4,422,952)</u> | <u>\$ (4,436,820)</u> |
| Due (to) John Dempsey Hospital - Ending Balance: | <u>\$ (21,072,330)</u> | <u>\$ (16,649,378)</u> |

During fiscal years 2024 and 2023, UHPSI received pharmacy overhead revenue from the Hospital in the amount of approximately \$212,000 and \$898,000, respectively. UHPSI was allocated its share of a deposit to AmerisourceBergen, the primary pharmaceutical supplier used by UHPSI. See Note 1 for additional information. The amounts allocated were approximately \$169,000 and \$4.4 million for fiscal years ended 2024 and 2023, respectively.

During fiscal years 2024 and 2023, UHPSI repaid the Hospital approximately \$37.5 million and \$25.0 million, respectively.

During fiscal years 2024 and 2023, UHPSI had transactions with the Hospital for 340B pharmaceutical sales. Payments received by UHPSI for 340B sales was approximately \$52.0 million and \$31.9 million, respectively. The amount due to the Hospital pharmacy, less dispensing fees of approximately \$11.1 million was approximately \$41.9 million at June 30, 2024. At June 30, 2023, the amount due to the Hospital for these sales was \$25.9 million.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

DUE FROM (TO) UMG

| | 2024 | 2023 |
|--|-----------------------------------|---------------------------------|
| Due from (to) UConn Medical Group - Beginning Balance: | \$ 617,544 | \$ 545,517 |
| <u>Circle Road Corporation:</u> | | |
| Administrative expense | (805) | - |
| <u>UHPSI:</u> | | |
| Pharmaceuticals & courier services charged back to UConn Medical Group | 8,334,126 | 6,697,977 |
| Cash received from UConn Medical Group | <u>(7,578,966)</u> | <u>(6,625,950)</u> |
| Total Change in Due from (to) UConn Medical Group | <u>\$ 754,355</u> | <u>\$ 72,027</u> |
| Due from UConn Medical Group - Ending Balance: | <u><u>\$ 1,371,899</u></u> | <u><u>\$ 617,544</u></u> |

During fiscal years 2024 and 2023, UHPSI provided pharmaceuticals and related services to UMG in the amount of approximately \$8.3 million and \$6.7 million, respectively. Pharmaceutical expense to UMG is recorded as a chargeback from UHPSI. During the fiscal years ended June 30, 2024 and 2023, UMG repaid UHPSI \$7.6 million and \$6.6 million, respectively.

DUE (TO) UCONN HEALTH - MALPRACTICE FUND

| | 2024 | 2023 |
|---|-------------------------------------|-----------------------------------|
| Due (to) UConn Health-Malpractice Fund - Beginning Balance | \$ (778,942) | \$ (568,424) |
| Cash transfers from UConn Health & interest earned on funds held for UConn Health | (35,077,043) | (7,042,591) |
| Payments on behalf of UConn Health | <u>34,170,492</u> | <u>6,832,073</u> |
| Total Change in Due (to) UConn Health-Malpractice Fund | <u>\$ (906,551)</u> | <u>\$ (210,518)</u> |
| Due (to) UConn Health-Malpractice Fund - Ending Balance | <u><u>\$ (1,685,493)</u></u> | <u><u>\$ (778,942)</u></u> |

Balances at fiscal year-end for the Malpractice Fund can fluctuate based on funding needs for payments.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

The Finance Corporation received working capital transfers from UConn Health to assist with repayments to related parties and the investment in subsidiary. These transfers recognize the overall contribution of UHPSI to the clinical enterprise. The amounts received are accounted for as “Net Transfers From UConn Health - unrestricted” in the statements of revenues, expenses and changes in net position. The total amount transferred as of June 30, 2024 and 2023 were \$625,000 and \$10,375,000.

NOTE 6 – 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. Instead, 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, 2024 and 2023.

| | 2024 | 2023 |
|--|----------------|----------------|
| Net minimum lease payments receivable | \$ 220,130,694 | \$ 234,107,245 |
| Estimated residual value of leased property (unguaranteed) | 65,861,269 | 65,861,269 |
| Less unearned income | (114,928,849) | (124,872,575) |
| Net investment in direct financing lease | \$ 171,063,114 | \$ 175,095,939 |

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, 2024 and 2023.

| | 2024 | 2023 |
|-----------|----------------|----------------|
| Building | \$ 182,613,585 | \$ 182,613,585 |
| Equipment | 13,768,588 | 13,768,588 |
| Art | 104,351 | 104,351 |
| | \$ 196,486,524 | \$ 196,486,524 |

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.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 7 – PHARMACEUTICAL REVENUES AND ACCOUNTS RECEIVABLE

UHPSI business operations include filling patient prescriptions to outpatients primarily from UConn Health related clinics.

Pharmaceutical revenues reported net of contractual allowances, DIR fees, and bad debt for the fiscal years ended June 30, 2024 and 2023 were:

| | 2024 | 2023 |
|---|----------------|----------------|
| Gross pharmaceutical revenue | \$ 219,197,056 | \$ 164,415,813 |
| Other income | 282,804 | - |
| Less contractual allowances, DIR fees, bad debt | (69,658,263) | (53,086,214) |
| Net pharmaceutical revenue | \$ 149,821,597 | \$ 111,329,599 |

SIGNIFICANT CONCENTRATIONS

In fiscal years 2024 and 2023, revenue received by UHPSI for Medicare, Medicaid, and Commercial payers were approximately as follows:

Revenue:

| Payer | 2024 | 2023 |
|------------|---------|---------|
| Medicare | 24.94% | 24.98% |
| Medicaid | 48.65% | 55.62% |
| Commercial | 26.41% | 19.40% |
| | 100.00% | 100.00% |

Pharmaceutical accounts receivable for fiscal years 2024 and 2023, due from Medicare, Medicaid, and Commercial insurance were approximately as follows:

Pharmaceutical Accounts Receivable:

| Payer | 2024 | 2023 |
|------------|---------|---------|
| Medicare | 21.96% | 36.84% |
| Medicaid | 49.13% | 27.96% |
| Commercial | 28.91% | 35.20% |
| | 100.00% | 100.00% |

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 8 – SUBSEQUENT EVENTS

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through December 3, 2024, the date the financial statements were available to be issued. No subsequent events required 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
The University of Connecticut Health Center
Hartford, Connecticut

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The University of Connecticut Health Center Finance Corporation (Finance Corporation or the Company), as of and for the years ended June 30, 2024 and 2023, and the related notes to the consolidated financial statements, which collectively comprise the Finance Corporation's consolidated financial statements, and have issued our report thereon dated December 3, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

West Hartford, Connecticut
December 3, 2024

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

SCHEDULE I – CONSOLIDATING STATEMENT OF NET POSITION

JUNE 30, 2024

| | UHC Finance Corporation | UHCFC Circle Road Corporation | UConn Health Pharmacy Services, Inc. | UConn Health Imaging, LLC. | Eliminations | Total |
|---|-------------------------------|-------------------------------------|--|-------------------------------|-----------------------|-----------------------|
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash | \$ - | \$ - | \$ 15,185,724 | \$ 803,366 | \$ - | \$ 15,989,090 |
| Malpractice Fund | 1,685,493 | - | - | - | - | 1,685,493 |
| Accounts receivable, net | - | - | 5,216,282 | 213,863 | - | 5,430,145 |
| Lease receivable -current portion | 828,583 | 7,799 | - | - | - | 836,382 |
| Inventory | - | - | 3,999,652 | 13,518 | - | 4,013,170 |
| Due from UConn Medical Group | - | - | 1,371,899 | - | - | 1,371,899 |
| Due (to) from subsidiaries | (760,818) | 512,383 | 248,435 | - | - | - |
| Prepaid Expenses | - | - | 838 | 36,252 | - | 37,090 |
| Net investment in direct financing lease, current portion | - | 4,265,486 | - | - | - | 4,265,486 |
| Total Current Assets | <u>1,753,258</u> | <u>4,785,668</u> | <u>26,022,830</u> | <u>1,066,999</u> | <u>-</u> | <u>33,628,755</u> |
| Noncurrent Assets | | | | | | |
| Deposits with vendors | - | - | 12,176,334 | - | - | 12,176,334 |
| Lease receivable, net of current portion | - | 399,075 | - | - | - | 399,075 |
| Investment in UHI | 2,000,000 | - | - | - | (2,000,000) | - |
| Net investment in direct financing lease, net of current portion | - | 166,797,628 | - | - | - | 166,797,628 |
| Property - right-to-use assets, net | - | - | 411,130 | 3,437,445 | - | 3,848,575 |
| Capital assets, net | 21,696,114 | - | 24,478 | 6,553,739 | - | 28,274,331 |
| Total Noncurrent Assets | <u>23,696,114</u> | <u>167,196,703</u> | <u>12,611,942</u> | <u>9,991,184</u> | <u>(2,000,000)</u> | <u>211,495,943</u> |
| Total Assets | <u>\$ 25,449,372</u> | <u>\$ 171,982,371</u> | <u>\$ 38,634,772</u> | <u>\$ 11,058,183</u> | <u>\$ (2,000,000)</u> | <u>\$ 245,124,698</u> |

See independent auditors' report.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

**SCHEDULE I – CONSOLIDATING STATEMENT OF NET POSITION
(CONTINUED)**

JUNE 30, 2024

| | UHC Finance Corporation | UHCFC Circle Road Corporation | UConn Health Pharmacy Services, Inc. | UConn Health Imaging, LLC | Eliminations | Total |
|---|-------------------------------|-------------------------------------|--|------------------------------|-----------------------|-----------------------|
| Liabilities and Net Position | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable and accrued expenses | \$ 34,633 | \$ 314,493 | \$ 6,790,364 | \$ 241,954 | \$ - | \$ 7,381,444 |
| Due to UConn Health – Malpractice Fund | 1,685,493 | - | - | - | - | 1,685,493 |
| Due to UConn Health | 15 | (29,477) | 496,414 | - | - | 466,952 |
| Due to John Dempsey Hospital | - | - | 8,895,996 | - | - | 8,895,996 |
| Due to third party payors | - | - | 385,049 | - | - | 385,049 |
| Lease liability, current portion | - | - | 145,103 | 735,178 | - | 880,281 |
| Loans payable, current portion | 826,105 | 6,707,067 | - | 277,793 | - | 7,810,965 |
| Total Current Liabilities | <u>2,546,246</u> | <u>6,992,083</u> | <u>16,712,926</u> | <u>1,254,925</u> | <u>-</u> | <u>27,506,180</u> |
| Noncurrent Liabilities | | | | | | |
| Due to John Dempsey Hospital, net of current portion | - | - | 12,176,334 | - | - | 12,176,334 |
| Lease liability, net of current portion | - | - | 377,807 | 6,558,056 | - | 6,935,863 |
| Loans payable, net of current portion | - | 147,386,002 | - | 1,199,164 | - | 148,585,166 |
| Total Noncurrent Liabilities | <u>-</u> | <u>147,386,002</u> | <u>12,554,141</u> | <u>7,757,220</u> | <u>-</u> | <u>167,697,363</u> |
| Total Liabilities | <u>2,546,246</u> | <u>154,378,085</u> | <u>29,267,067</u> | <u>9,012,145</u> | <u>-</u> | <u>195,203,543</u> |
| Deferred Inflows of Resources | | | | | | |
| Deferred inflows - right-to-use assets | 732,505 | 362,975 | - | - | - | 1,095,480 |
| Net Position | | | | | | |
| Net investment in capital assets | 20,870,009 | 16,970,045 | (87,302) | 1,220,993 | - | 38,973,745 |
| Minority interest - UHI | - | - | - | 511,510 | - | 511,510 |
| Unrestricted | 1,300,612 | 271,266 | 9,455,007 | 313,535 | (2,000,000) | 9,340,420 |
| Total Net Position | <u>22,170,621</u> | <u>17,241,311</u> | <u>9,367,705</u> | <u>2,046,038</u> | <u>(2,000,000)</u> | <u>48,825,675</u> |
| Total Liabilities, Deferred Inflows and Net Position | <u>\$ 25,449,372</u> | <u>\$ 171,982,371</u> | <u>\$ 38,634,772</u> | <u>\$ 11,058,183</u> | <u>\$ (2,000,000)</u> | <u>\$ 245,124,698</u> |

See independent auditors' report.

**THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

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

FOR THE YEAR ENDED JUNE 30, 2024

| | UHC Finance Corporation | UCHCFC Circle Road Corporation | UConn Health Pharmacy Services, Inc. | UConn Health Imaging, LLC | Eliminations | Total |
|---|-------------------------------|--------------------------------------|--|------------------------------|-----------------------|----------------------|
| Operating Revenues | | | | | | |
| Interest income - right-to-use assets | \$ 118,473 | \$ 19,750 | \$ - | \$ - | \$ - | \$ 138,223 |
| Lease Revenue - right-to-use assets | 1,758,012 | 16,793 | - | - | - | 1,774,805 |
| Rental Income | 239,824 | 33,401 | - | - | - | 273,225 |
| Interest income from direct financing lease | - | 9,947,708 | - | - | - | 9,947,708 |
| Contract and other income | - | - | 270,715 | - | - | 270,715 |
| Imaging revenue, net | - | - | - | 225,282 | - | 225,282 |
| Pharmaceutical revenues, net | - | - | 149,821,597 | - | - | 149,821,597 |
| Total Operating Revenues | <u>2,116,309</u> | <u>10,017,652</u> | <u>150,092,312</u> | <u>225,282</u> | <u>-</u> | <u>162,451,555</u> |
| Operating Expenses | | | | | | |
| Professional services | 21,643 | 3,499 | - | 312,640 | - | 337,782 |
| Internal contractual support | - | - | 2,160,457 | - | - | 2,160,457 |
| Outside agency per diems | - | - | 10,143,455 | 54,291 | - | 10,197,746 |
| Pharmaceuticals/medical supplies | - | - | 136,755,400 | 32,480 | - | 136,787,880 |
| Equipment and software leases | - | - | 97,700 | 10,317 | - | 108,017 |
| Insurance, rent, utilities, repairs and maintenance | - | - | 750 | 34,766 | - | 35,516 |
| Interest expense | 111,440 | 7,565,271 | 20,803 | 165,135 | - | 7,862,649 |
| Depreciation | 753,300 | - | 4,279 | 141,814 | - | 899,393 |
| Amortization - right-to-use assets | - | - | 120,914 | 55,365 | - | 176,279 |
| Other | - | 3,981 | 111,544 | 39,103 | - | 154,628 |
| Total Operating Expenses | <u>886,383</u> | <u>7,572,751</u> | <u>149,415,302</u> | <u>845,911</u> | <u>-</u> | <u>158,720,347</u> |
| Operating Income | <u>1,229,926</u> | <u>2,444,901</u> | <u>677,010</u> | <u>(620,629)</u> | <u>-</u> | <u>3,731,208</u> |
| Nonoperating Revenue (Expense) | | | | | | |
| Loan servicing fee | (6,117) | (5,750) | - | - | - | (11,867) |
| Net Nonoperating (Expense) | <u>(6,117)</u> | <u>(5,750)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(11,867)</u> |
| Gain (Loss) before Transfers | 1,223,809 | 2,439,151 | 677,010 | (620,629) | - | 3,719,341 |
| Net Transfers from UConn | | | | | | |
| Health - Unrestricted (Note 5) | 625,000 | - | - | - | - | 625,000 |
| Contribution - controlling interest - UHI | - | - | - | 2,000,000 | (2,000,000) | - |
| Contribution - minority interest - UHI | - | - | - | 666,667 | - | 666,667 |
| Increase in Net Position - Unrestricted | 1,848,809 | 2,439,151 | 677,010 | 2,046,038 | (2,000,000) | 5,011,008 |
| Net Position - Beginning of year | 20,321,812 | 14,802,160 | 8,690,695 | - | - | 43,814,667 |
| Net Position - End of year | <u>\$ 22,170,621</u> | <u>\$ 17,241,311</u> | <u>\$ 9,367,705</u> | <u>\$ 2,046,038</u> | <u>\$ (2,000,000)</u> | <u>\$ 48,825,675</u> |

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