

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

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

JUNE 30, 2025 AND 2024



CPAs | CONSULTANTS | WEALTH ADVISORS

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the financial position and activities of the University of Connecticut Health Center John Dempsey Hospital (21002 Fund) (the Hospital) as of and for the fiscal years ended June 30, 2025, 2024, and 2023. The Hospital is operated as a separate, identifiable unit of the University of Connecticut Health Center (UConn Health). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Through the Hospital (a licensed acute care hospital with 247 certified general acute care beds and 10 bassinets, 248 staffed), UConn Health provides specialized and routine inpatient and outpatient services. The Hospital has long been regarded as the premier facility in the region for high-risk maternity services. It is recognized for its cardiovascular program (interventional cardiology and surgery), cancer, musculoskeletal, neurosurgical care, stroke services and behavioral mental health services. Additionally, the Hospital is home to the only Emergency Department in Connecticut's Farmington Valley. The Hospital also provides comprehensive healthcare services for the State of Connecticut's (State) incarcerated inmates. These services are provided through a variety of contracts with the Hospital and the State's Department of Correction (DOC).

The Hospital received aid from a number of governmental and other sources throughout the pandemic. Notably, the Hospital received federal funding via the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Coronavirus Relief Fund (CRF); and from the Federal Emergency Management Agency (FEMA). Funding came from both general and targeted distributions. Funds received under these programs carry reporting and other requirements outlined by the federal government, which began September 30, 2021 and ended September 30, 2024. The Hospital believes it has met these requirements.

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows and related notes to the financial statements) present the financial position of the Hospital at June 30, 2025 and 2024, and the results of its operations and its financial activities for the fiscal years then ended. These financial statements report information about the Hospital using accounting methods similar to those used by private-sector companies. The Statements of Net Position include all of the Hospital's assets, liabilities, and deferred inflows and outflows. The Statements of Revenues, Expenses, and Changes in Net Position reflect the 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 financial statements report the Hospital's net position and how it has changed. Net position (the difference between assets and liabilities adjusted for deferred outflows and inflows) is one way to measure financial health or position. The Statements of Cash Flows provide relevant information about each year's cash receipts and cash payments and classifies them as operating, investing, noncapital financing activities, and capital and related financing activities. The financial statement footnotes include notes that explain information in the financial statements and provide more detailed data.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

The Hospital's financial position at June 30, 2025, consisted of assets of approximately \$654.9 million and liabilities of approximately \$210.7 million. The Hospital's financial position at June 30, 2024, consisted of assets of approximately \$564.1 million, deferred outflows of approximately \$338.8 million, liabilities of approximately \$1,142.8 million (of which \$937.4 million is related to GASB Statements No. 68 and 75), and deferred inflows of approximately \$289.6 million. Net position, which represents the residual interest in the Hospital's assets and deferred outflows after liabilities and deferred inflows are deducted, increased by approximately \$960.2 million from fiscal year 2024 to a net position of approximately \$430.6 million as of June 30, 2025. Due to a legislative change effective July 1, 2023, the State now fully funds retirement-related fringe benefit costs for eligible Hospital employees. The Hospital is no longer charged for contributions to State-administered pension and OPEB plans through a fringe benefit rate assessment. However, because the measurement period for fiscal year 2024 still reflected prior allocations, the Hospital continued to report related balances in that year. Due to both the legislative change and the timing of the measurement period, the Hospital will no longer recognize pension and OPEB liabilities, related deferred outflows and inflows, and related expenses in its financial statements. As a result, the derecognition of these amounts was recorded as a special item in the accompanying Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2025 and deferred amounts related to pension and OPEB liabilities have been removed from the Statement of Net Position for fiscal year 2025.

The Hospital finished the year with operating income of \$51.4 million compared to an operating loss of \$91.3 million in the prior year. Current year income excludes the effect of the Hospital derecognizing its pro-rata share of expenses under GASB Statements No. 68 and 75 as discussed in Note 9. In fiscal year 2025, the Hospital recorded a special item for the removal of the pension and OPEB balances. This derecognition is classified as a special item under GASB Statements No. 34 *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments* and No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* because it is infrequent in occurrence and falls within management control, as demonstrated by their participation and influence in decisions regarding State funding. The impact of the derecognition was approximately \$886.2 million in fiscal year 2025. In fiscal year 2024, the Hospital recorded the impact of GASB 68 and 75 as part of operations resulting in an increase of \$122.8 million of expenses in 2024. The change was driven by changes in plan assumptions and changes in the Hospital's allocated percentage overall liabilities from fiscal 2024 to fiscal 2025. Operating income (losses) exclusive of these entries were \$51.4 million and \$33.4 million in fiscal years 2025 and 2024, respectively.

The Hospital received net transfers from UConn Health of \$25.1 million and \$14.9 million in fiscal years 2025 and 2024, respectively. Current year transfers from UConn Health included \$4.5 million related to fringe benefit support and \$20.6 million for capital improvements. In fiscal year 2024, UConn Health transferred \$4.5 million and \$10.4 million related to fringe benefit support and working capital, respectively. Total net position increased by approximately \$960.2 million in fiscal year 2025, compared to a decrease of approximately \$78.9 million in fiscal year 2024.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF ASSETS AND LIABILITIES

Summarized components of the Hospital's Statements of Net Position as of June 30, 2025, 2024, and 2023 are presented below:

| | 2025 | 2024 (Restated) | 2023 (Restated) |
|--|-----------------------|----------------------------|----------------------------|
| | <i>(in thousands)</i> | | |
| Summary of assets, liabilities and net position at June 30: | | | |
| Current assets | \$ 236,092 | \$ 151,337 | \$ 95,046 |
| Other assets | 41,611 | 24,975 | 25,280 |
| Property - right-to-use assets, net | 76,086 | 78,966 | 93,083 |
| Capital assets, net | 301,094 | 308,793 | 306,272 |
| Total assets | \$ 654,883 | \$ 564,071 | \$ 519,681 |
| Deferred amount for pensions | \$ - | \$ 107,038 | \$ 168,794 |
| Deferred amount for OPEB | - | 231,736 | 128,736 |
| Total deferred outflows | \$ - | \$ 338,774 | \$ 297,530 |
| Current liabilities | \$ 114,866 | \$ 104,761 | \$ 89,474 |
| Noncurrent liabilities | 95,787 | 1,038,082 | 884,233 |
| Total liabilities | \$ 210,653 | \$ 1,142,843 | \$ 973,707 |
| Deferred amount for lease liability | \$ 13,643 | \$ 2,030 | \$ 4,245 |
| Deferred amount for pensions | - | 69,297 | 91,282 |
| Deferred amount for OPEB | - | 218,305 | 198,678 |
| Total deferred inflows | \$ 13,643 | \$ 289,632 | \$ 294,205 |
| Net investment in capital assets | \$ 286,456 | \$ 291,830 | \$ 295,166 |
| Unrestricted (deficit) | 144,131 | (821,460) | (745,867) |
| Total net position | \$ 430,587 | \$ (529,630) | \$ (450,701) |

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF ASSETS AND LIABILITIES (CONTINUED)

In this section, the Hospital explains the reasons for those financial statement items with significant variances relating to fiscal year 2025 amounts compared to fiscal year 2024 amounts.

Changes in assets included the following:

- *Patient accounts receivable* – increased by approximately \$9.4 million from June 30, 2024 to June 30, 2025. This increase is primarily attributable to higher patient volumes during the fiscal year. Inpatient discharges rose by 1,078 and outpatient equivalents increased by 3,296 compared to fiscal year 2024.
- *Contract and other receivables* – increased from June 30, 2024 to June 30, 2025 by approximately \$4.7 million due to payments outstanding for payroll owed on the contract between the Hospital and the Neonatal Intensive Care Unit (owned and operated by the Connecticut Children's Medical Center).
- *Due from Finance Corporation* – increased from June 30, 2024 to June 30, 2025 by approximately \$9.1 million primarily associated with the increase in revenues from the UConn Health Pharmacy Services Inc. (UHPSI) 340B program revenue.
- *Lease receivable, net of current portion* – increased from June 30, 2024 to June 30, 2025 by approximately \$12.7 million due to the renewal of the Neonatal Intensive Care Unit lease.
- *Capital and intangible assets, net* – decreased from June 30, 2024 to June 30, 2025 by approximately \$7.7 million, as depreciation and disposals outpaced capital acquisitions during the current fiscal year.

Changes in liabilities included the following:

- *Due to other funds* – increased from June 30, 2024 to June 30, 2025 by approximately \$4.1 million primarily due to home office allocations for administrative services.
- *Accrued compensated absences, current portion* – increased from June 30, 2024 to June 30, 2025 by approximately \$3.6 million, primarily due to the implementation of GASB 101.
- *Pension and OPEB liabilities* – decreased from June 30, 2024 to June 30, 2025 by approximately \$937.4 million due to the derecognition of the Hospital's proportional share of the State's pension and OPEB liability.
- *Right-to-use liabilities* – decreased from June 30, 2024 to June 30, 2025 by approximately \$5.2 million, primarily as a result of scheduled paydowns of lease obligations.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Summarized components of the Hospital's Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2025, 2024, and 2023 are presented below:

| | 2025 | 2024 (Restated) | 2023 (Restated) |
|--|-----------------------|----------------------------|----------------------------|
| | <i>(in thousands)</i> | | |
| Summary of revenues, expenses and transfers for the year ended June 30: | | | |
| Operating revenues | \$ 865,735 | \$ 761,729 | \$ 699,116 |
| Operating expenses | (814,353) | (853,054) | (731,915) |
| Operating income (loss) | 51,382 | (91,325) | (32,799) |
| Nonoperating revenue (expense), net | (2,514) | (2,484) | (2,313) |
| Income (loss) before other changes in net position | 48,868 | (93,809) | (35,112) |
| Net transfers | 25,108 | 14,880 | 68,629 |
| Derecognition of pension and OPEB balances | 886,241 | - | - |
| Cumulative effect of change in accounting method GASB 101 | - | - | (15,752) |
| Increase (decrease) in net position | \$ 960,217 | \$ (78,929) | \$ 17,765 |

Hospital discharges of 13,079 represent an increase of 1,078 from 2024 as demand for services continues to grow.

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

Operating revenues – total operating revenues increased from the fiscal year ended June 30, 2024 to the fiscal year ended June 30, 2025 by approximately \$104.0 million or 13.7%.

- *Net patient service revenues* – increased by approximately \$67.9 million or 10.3% from prior year due to increased volumes along with certain payor contract increases made in fiscal year 2025.
- *Contract and other revenues* – increased by approximately \$36.1 million or 35.6% from the prior year, which was driven by increases in the Ryan White 340B contract and pharmacy 340B contract agreements (340B drug contract).

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JOHN DEMPSEY HOSPITAL (21002 FUND)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

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

Operating expenses – Total operating expenses decreased from the fiscal year ended June 30, 2024 to the fiscal year ended June 30, 2025 by approximately \$38.7 million or 4.5%.

- *Salaries and wages* – increased by approximately \$29.2 million or 11.0% from the prior year due to planned wage increases. Additionally, full time equivalents (FTE's) rose by 129 year-over-year, reflecting a strategic response to increased patient volume and operational demands associated with expanded bed licensing approved in fiscal year 2025.
- *Fringe benefits* – decreased by approximately \$117.7 million or 59.9% from the prior year primarily due to a legislative change enacted in fiscal year 2024. As a result of this change, the State now funds the retirement cost for the employees of the Hospital.
- *Internal contractual support* – increased by approximately \$9.1 million or 19.3% from the prior year, which was driven by the increasing volume of transactions with UHPSI and the increase in the billed amount for interns and residents.
- *Amortization* – decreased by approximately \$7.3 million or 42.2% from the prior year due to the full amortization of certain subscriptions and the absence of significant additions.
- *Pharmaceutical/medical supplies* – increased by approximately \$32.8 million or 17.3% from the prior year due to the increasing volume of transactions with UHPSI and increased supplies associated with higher surgical volumes during fiscal year 2025.
- *Outside and other purchased services* – increased by approximately \$8.7 million or 14.8% from the prior year due to the increase in data processing software maintenance and other professional services.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF CASH FLOWS

The Statements of Cash Flows provide additional information about the Hospital's financial results by reporting the major sources and uses of cash. A summary of the Statements of Cash Flows for the fiscal years ended June 30, 2025, 2024, and 2023 are as follows:

| | 2025 | 2024 (Restated) | 2023 |
|--|--------------------------|----------------------------------|------------------------|
| | <i>(in thousands)</i> | | |
| Cash received from operations | \$ 852,658 | \$ 761,525 | \$ 675,952 |
| Cash expended for operations | <u>(780,360)</u> | <u>(694,983)</u> | <u>(744,322)</u> |
| Net cash provided by (used in) operations | 72,298 | 66,542 | (68,370) |
| Net cash (used in) investing activities | (21,397) | (25,765) | (14,419) |
| Net cash provided by noncapital financing activities | - | - | 292 |
| Net cash provided by capital and related financing activities | <u>17,745</u> | <u>4,058</u> | <u>57,280</u> |
| Net change in cash | 68,646 | 44,835 | (25,217) |
| Cash - Beginning | <u>53,012</u> | <u>8,177</u> | <u>33,394</u> |
| Cash - Ending | <u><u>\$ 121,658</u></u> | <u><u>\$ 53,012</u></u> | <u><u>\$ 8,177</u></u> |

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

CAPITAL AND INTANGIBLE ASSETS

At June 30, 2025, the Hospital had capital assets of \$566.8 million and property – right to use assets of \$134.3 million before accumulated depreciation and amortization, compared to \$561.2 million and \$131.8 million at June 30, 2024. A summary of capital and intangible asset balances is shown in the table below:

| | 2025 | 2024 | 2023 |
|--|-----------------------|-------------------|-------------------|
| | <i>(in thousands)</i> | | |
| Land | \$ 183 | \$ 183 | \$ 183 |
| Construction in progress | 9,546 | 15,747 | 7,664 |
| Buildings | 419,022 | 405,905 | 404,149 |
| Equipment | 80,887 | 81,711 | 73,277 |
| Computer software | 57,071 | 57,557 | 56,979 |
| Equipment - financed | 71 | 71 | 71 |
| Total capital assets | 566,780 | 561,174 | 542,323 |
| Less accumulated depreciation and amortization | 265,686 | 252,381 | 236,051 |
| Capital assets, net | <u>\$ 301,094</u> | <u>\$ 308,793</u> | <u>\$ 306,272</u> |
| Property - right-to-use building | \$ 92,500 | \$ 94,466 | \$ 94,397 |
| Property - right-to-use equipment | 15,427 | 12,378 | 17,055 |
| Property - right-to-use subscriptions | 26,331 | 24,989 | 25,266 |
| Total property - right-to-use assets | 134,258 | 131,833 | 136,718 |
| Less accumulated amortization | 58,172 | 52,867 | 43,635 |
| Property - right-to-use assets, net | <u>\$ 76,086</u> | <u>\$ 78,966</u> | <u>\$ 93,083</u> |

For fiscal year 2026, all UConn Health capital requests will be considered for funding on an individual basis. Capital requests will be considered by UConn Health's Capital Prioritization Committee. More detailed information about the Hospital's capital and intangible assets are presented in Note 7 to the financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2026 OUTLOOK

As we look ahead to fiscal year 2026, UConn Health is entering a period of thoughtful planning and strategic investment. The new biennium brings both budgetary challenges and significant opportunities to further strengthen our clinical enterprise. While federal and state governments continue to reassess healthcare and research spending, UConn Health is well positioned to adapt. Across the industry, scale, integration, and innovative risk-sharing models are reshaping care delivery, and UConn Health is actively preparing to take advantage of these trends.

Demand for our services continues to grow, reflecting strong community trust in UConn Health. To meet this need, JDH has added new operating room capacity and secured licensure for 23 additional inpatient beds, helping to ease census pressures and expand access. UMG continued its expansion of outpatient care, including the opening of a modern new facility in Simsbury. While capital resources are limited, these strategic investments demonstrate our commitment to serving Connecticut residents and strengthening our statewide presence. Strategic partnerships - including those in imaging and outpatient surgery - allow us to enhance services efficiently while managing competing capital needs. We continue to explore additional collaborations with public and private organizations to bring even more resources and options to the people of Connecticut.

At the State's request, UConn Health is also assessing potential partnerships with independent hospitals across the region. Building on the Cain Brothers report and informed by current market conditions, we are evaluating pathways for the State to achieve greater scale within the healthcare system - improving financial stability for smaller hospitals and expanding access to care. We are pursuing complementary partnership opportunities in ancillary clinical areas as well, ensuring we continue to grow in ways that benefit patients.

UConn Health's mission - research, education, patient care, and community service - remains as vital as ever. We are taking proactive steps to strengthen each of these pillars while preparing for possible changes in federal and state funding. Anticipated reductions in programs such as Medicaid and National Institutes of Health (NIH) research underscore the importance of accelerating efforts toward a self-sustaining clinical enterprise. These initiatives will help preserve access to comprehensive services and specialties that may not otherwise be available within the state.

Sound financial management and institution-wide initiatives, combined with additional State support, allowed UConn Health to outperform its fiscal year 2025 spending plan and carry funds forward into fiscal year 2026. While the conclusion of the American Rescue Plan Act (ARPA) introduces new fiscal pressures, UConn Health is confident in its ability to identify further efficiencies and structural improvements to maintain financial balance going forward.

The broader economic environment continues to evolve, but UConn Health views this period as one of opportunity. Innovation in healthcare policy, new technologies, and industry partnerships offer new avenues for growth and advancement. While inflation, labor dynamics, and regulatory changes require vigilance, we remain confident in our ability to adapt and continue serving as a reliable healthcare partner for our communities. Over the next one to two years, UConn Health expects to pursue new opportunities, respond nimbly to change, and advance our mission with a focus on long-term stability and growth.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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



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 John Dempsey Hospital (21002 Fund) (the Hospital), an enterprise fund of the state of Connecticut, as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of Connecticut Health Center John Dempsey Hospital (21002 Fund) as of June 30, 2025 and 2024, and the respective changes in net position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our 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 University of Connecticut Health Center John Dempsey Hospital (21002 Fund) 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.

Emphasis of Matter Regarding a Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2025 the Hospital adopted new accounting guidance for the recognition of measurement of compensated absences and associated salary-related payments. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital'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 John Dempsey Hospital'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 John Dempsey Hospital's ability to continue as a going concern for a reasonable period of time.

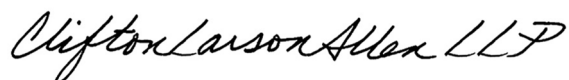
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2025, on our consideration of The University of Connecticut Health Center John Dempsey Hospital’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

West Hartford, Connecticut
November 20, 2025

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

STATEMENTS OF NET POSITION

JUNE 30, 2025 AND 2024

| | 2025 | 2024 |
|---|--------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 121,658,271 | \$ 53,012,002 |
| Patient accounts receivable, net of estimated uncollectibles of \$46,547,588 and \$39,519,185 at June 30, 2025 and 2024, respectively | 68,047,679 | 58,607,322 |
| Inventory | 18,495,617 | 17,334,825 |
| Contract and other receivables (Note 6) | 8,739,624 | 4,053,822 |
| Lease receivable, current portion (Note 6) | 999,965 | 2,171,140 |
| Due from other funds | - | 6,040,802 |
| Due from Finance Corporation | 16,002,112 | 8,895,996 |
| Prepaid expenses | 2,149,013 | 1,220,761 |
| Total Current Assets | 236,092,281 | 151,336,670 |
| Noncurrent Assets | | |
| Deposits with vendors (Note 1) | 14,637,066 | 12,681,647 |
| Other assets | 117,543 | 117,543 |
| Lease receivable, net of current portion (Note 6) | 12,696,945 | - |
| Due from Finance Corporation, noncurrent portion | 14,159,611 | 12,176,334 |
| Property - right-to-use assets, net (Note 7) | 76,085,603 | 78,966,116 |
| Capital and intangible assets, net (Note 7) | 301,093,521 | 308,792,675 |
| Total Noncurrent Assets | 418,790,289 | 412,734,315 |
| Total Assets | 654,882,570 | 564,070,985 |
| Deferred Outflows of Resources | | |
| Deferred amount for pensions (Note 9) | - | 107,038,539 |
| Deferred amount for OPEB (Note 9) | - | 231,735,981 |
| Total Deferred Outflows of Resources | \$ - | \$ 338,774,520 |

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

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2025 AND 2024

| | 2025 | 2024 (Restated) |
|--|-----------------------|----------------------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 27,455,340 | \$ 27,488,168 |
| Accrued payroll | 13,207,551 | 11,481,665 |
| Due to UConn Health Malpractice Fund | 361,504 | 361,504 |
| Due to other funds | 4,134,811 | - |
| Due to State of Connecticut | 3,634,489 | 3,200,015 |
| Due to UMG | 204 | - |
| Due to third-party payors | 25,627,108 | 26,513,543 |
| Unearned revenue | 854,146 | 4,419 |
| Right-to-use liabilities, current portion (Note 8) | 11,645,559 | 11,384,025 |
| Accrued compensated absences, current portion (Note 8) | 27,944,944 | 24,327,257 |
| Total Current Liabilities | 114,865,656 | 104,760,596 |
| Noncurrent Liabilities | | |
| Pension liabilities (Note 9) | - | 356,834,835 |
| OPEB liabilities (Note 9) | - | 580,578,711 |
| Right-to-use liabilities, net of current portion (Note 8) | 79,077,080 | 84,545,216 |
| Accrued compensated absences, net of current portion (Note 8) | 16,709,808 | 16,123,785 |
| Total Noncurrent Liabilities | 95,786,888 | 1,038,082,547 |
| Total Liabilities | 210,652,544 | 1,142,843,143 |
| Deferred Inflows of Resources | | |
| Deferred amount for resources right-to-use assets | 13,642,671 | 2,030,495 |
| Deferred amount for pensions (Note 9) | - | 69,296,557 |
| Deferred amount for OPEB (Note 9) | - | 218,305,191 |
| Total Deferred Inflows of Resources | 13,642,671 | 289,632,243 |
| Net Position | | |
| Net investment in capital assets | 286,456,485 | 291,829,550 |
| Unrestricted (deficit) | 144,130,870 | (821,459,431) |
| Total Net Position | \$ 430,587,355 | \$ (529,629,881) |

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024**

| | 2025 | 2024 (Restated) |
|---|-----------------------|----------------------------|
| Operating Revenues | | |
| Net patient service revenues (Note 5) | \$ 728,297,063 | \$ 660,401,437 |
| Contract and other revenues | 137,437,928 | 101,327,243 |
| Total Operating Revenues | <u>865,734,991</u> | <u>761,728,680</u> |
| Operating Expenses | | |
| Salaries and wages | 295,034,052 | 265,837,738 |
| Fringe benefits | 78,640,577 | 196,306,253 |
| Medical/dental house staff | 3,981,510 | 3,816,823 |
| Medical contractual support | 5,446,729 | 4,326,937 |
| Internal contractual support | 56,575,718 | 47,429,079 |
| Outside agency per diems | 20,271,780 | 19,187,545 |
| Depreciation (Note 7) | 21,728,814 | 20,028,414 |
| Amortization (Note 7) | 9,976,419 | 17,270,138 |
| Pharmaceutical/medical supplies | 221,864,570 | 189,085,135 |
| Utilities | 6,802,933 | 4,922,200 |
| Outside and other purchased services | 67,875,765 | 59,148,857 |
| Insurance | 5,716,709 | 5,860,885 |
| Repairs and maintenance | 14,586,716 | 13,369,480 |
| Other expenses | 5,850,028 | 6,463,650 |
| Total Operating Expenses | <u>814,352,320</u> | <u>853,053,134</u> |
| Operating Income (Loss) | <u>51,382,671</u> | <u>(91,324,454)</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest income | 162,005 | 118,970 |
| Lease revenue | 2,208,831 | 2,215,086 |
| Interest expense | (4,613,925) | (4,755,591) |
| Loss on disposals | (271,119) | (62,626) |
| Net Nonoperating Expenses | <u>(2,514,208)</u> | <u>(2,484,161)</u> |
| Income (Loss) before Other Changes in Net Position | 48,868,463 | (93,808,615) |
| Other Changes in Net Position | | |
| Transfers from UConn Health - Unrestricted (Note 10) | 25,107,999 | 14,879,710 |
| Derecognition of pension and OPEB balances (Note 9) | 886,240,774 | - |
| Net Other Changes in Net Position | <u>911,348,773</u> | <u>14,879,710</u> |
| Increase (Decrease) in Net Position | 960,217,236 | (78,928,905) |
| Net Position - Beginning of year | (529,629,881) | (434,948,345) |
| Cumulative effect of implementing GASB 101 | - | (15,752,631) |
| Net Position - Beginning of year (restated) | <u>(529,629,881)</u> | <u>(450,700,976)</u> |
| Net Position - End of year | <u>\$ 430,587,355</u> | <u>\$ (529,629,881)</u> |

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

| | 2025 | 2024 (Restated) |
|---|-----------------------|----------------------------|
| Cash Flows from Operating Activities | | |
| Cash received from patients and third-party payors | \$ 717,970,271 | \$ 659,393,025 |
| Cash received from contract and other revenues | 133,601,853 | 102,131,959 |
| Cash paid to employees for salaries and fringe benefits | (367,310,559) | (331,798,580) |
| Cash (returned to) received from related parties | 1,086,424 | (11,005,626) |
| Cash paid for other than personnel services | (413,049,749) | (352,179,103) |
| Net Cash Provided by Operating Activities | 72,298,240 | 66,541,675 |
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | (21,396,685) | (25,765,268) |
| Net Cash Used in Investing Activities | (21,396,685) | (25,765,268) |
| Cash Flows from Capital and Related Financing Activities | | |
| Interest paid | (4,613,925) | (4,755,591) |
| Transfer from UConn Health - unrestricted | 25,107,999 | 14,879,710 |
| Payments on right-to-use lease liabilities, net | (5,206,602) | (8,256,508) |
| Payments on notes payable | - | (2,917) |
| Interest income | 162,005 | 118,970 |
| Lease revenue | 2,295,237 | 2,074,441 |
| Net Cash Provided by Capital and Related Financing Activities | 17,744,714 | 4,058,105 |
| Net Change in Cash | 68,646,269 | 44,834,512 |
| Cash - Beginning | 53,012,002 | 8,177,490 |
| Cash - Ending | \$ 121,658,271 | \$ 53,012,002 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities | | |
| Lease receivable renewal | \$ 13,821,007 | \$ - |
| Right-to-use assets acquired by entering into lease agreements | \$ 5,273,839 | \$ 368,225 |
| Right-to-use subscription acquired by entering into lease agreements | \$ 1,822,067 | \$ 2,784,939 |
| Derecognition of pension and OPEB balances | \$ (886,240,774) | \$ - |

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

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

| | 2025 | 2024 (Restated) |
|--|----------------------|----------------------------|
| Reconciliation to Operating Loss to Net | | |
| Cash Provided (Used) in Operating Activities | | |
| Operating income (loss) | \$ 51,382,671 | \$ (91,324,454) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation and amortization | 31,705,233 | 37,298,552 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable, net | (9,440,357) | (4,095,249) |
| Inventory | (1,160,792) | (2,014,022) |
| Contract and other receivables | (4,685,802) | 804,716 |
| Prepaid expenses | (928,252) | 631,896 |
| Deposit with vendors | (1,955,419) | (1,556,528) |
| Due from UMG | - | 3,244,811 |
| Due from Finance Corporation | (9,089,393) | (4,422,952) |
| Due from State of Connecticut | - | 222,603 |
| Due from other funds | 6,040,802 | (6,040,802) |
| Change in deferred inflows - pension | - | 43,878 |
| Change in deferred inflows - OPEB | - | (58,210,998) |
| Due to third-party payors | (886,435) | 3,086,837 |
| Due to malpractice | - | (173,126) |
| Due to other funds | 4,134,811 | (3,786,683) |
| Due to UMG | 204 | - |
| Unearned revenue | 849,727 | - |
| Accounts payable and accrued expenses | (32,828) | 4,543,267 |
| Due to State of Connecticut | 434,474 | 602,126 |
| Change in deferred outflows - OPEB | - | 54,126,531 |
| Change in deferred outflows - pension | - | 27,876,506 |
| Change in net pension liability | - | 28,125,609 |
| Change in net OPEB liability | - | 70,870,731 |
| Accrued payroll | 1,725,886 | 2,633,374 |
| Accrued compensated absences | 4,203,710 | 4,055,052 |
| Net Cash Provided by Operating Activities | \$ 72,298,240 | \$ 66,541,675 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

REPORTING ENTITY

The financial statements include those assets, deferred outflows, liabilities, deferred inflows, net position, revenue, and expense accounts reflected in the accounting records of University of Connecticut Health Center John Dempsey Hospital (the Hospital), which are primarily accounted for in the 21002 Fund of the University of Connecticut Health Center (UConn Health).

There are 21 members of the Board of Trustees of the University of Connecticut. Five serve as ex officio voting members by virtue of other positions: The Governor is President of the Board, the Commissioners of Agriculture, Education, and Economic and Community Development are Board members, and the Chair of UConn Health's Board of Directors is a member. Two Board members are elected by alumni for four-year terms (and may be re-elected once, in succession). One undergraduate student is elected by undergraduates for a two-year term. One graduate or professional student is elected by graduate and professional students for a two-year term. Twelve members are appointed by the Governor, subject to confirmation by the General Assembly, for six-year terms, and may be reappointed without limit.

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

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

The University of Connecticut Health Center Finance Corporation (Finance Corporation) was established pursuant to Public Act No 87-458. The purpose of the Finance Corporation is to provide greater flexibility for the Hospital and to promote more efficient provision of health care services. As such, the Finance Corporation has been empowered to purchase supplies and equipment, acquire facilities, approve write-offs of the Hospital's accounts receivable, process malpractice claims on behalf of the Hospital and UConn Health, as well as negotiate joint ventures, shared service, and other agreements for the benefit of the Hospital.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

BASIS OF PRESENTATION

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

PROPRIETARY FUND ACCOUNTING

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

USE OF ESTIMATES

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

CASH

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

ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUES

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

The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare, Medicaid, and commercial health care coverage and other collection indicators. See Note 5 for additional information relative to net patient service revenues and third-party payor programs.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

CONTRACT AND OTHER REVENUES

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

The Hospital's 340B pharmacy has an agreement with UConn Health Pharmacy Services, Inc. (UHPSI) related to certain pharmaceutical sales. This revenue is included in contract and other revenues on the statements of revenues, expenses, and changes in net position. See Note 6 for additional details.

INVENTORY

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

DEPOSITS WITH VENDORS

As of June 30, 2025 and 2024, deposits with vendors totaled approximately \$14.6 million and \$12.7 million, respectively. The majority of these funds, approximately \$14.3 million and \$12.1 million, respectively, were held on deposit by AmerisourceBergen. This is the Hospital's primary pharmaceutical vendor. As part of its contract, the Hospital is required to maintain a deposit with AmerisourceBergen based on a percentage of the prior quarter purchases. The deposits are non-interest bearing and are considered subject to the credit risk of the vendor.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

LEASES

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

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

In addition, the Hospital has entered various subscription-based information technology arrangements to support its services. Information on the types of arrangements entered into and their financial impact on the Hospital can be found in Note 8.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

CAPITAL ASSETS

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

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

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

INTANGIBLE ASSETS

Intangible assets consist of capitalized computer software costs, including software internally developed, that do not meet the definition of subscription-based information technology agreements. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage, and the nature of the costs. Computer software costs are amortized on a straight-line basis over their expected useful lives, which range from 3 to 10 years. Capitalized computer software costs are included with capital and intangible assets on the statements of net position. See Note 7 for the gross costs capitalized and the accumulated amortization of capitalized computer costs.

IMPAIRMENT OF LONG-LIVED ASSETS

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

During 2025, the Hospital disposed of general equipment of approximately \$6 million due to equipment reaching the end of their life and having been retired. These assets are reported in Note 7 and resulted in loss on disposal of \$62,448. The Hospital also disposed of several smaller, non-individually significant assets, which resulted in a total loss on disposal of \$208,671.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

STATE FUNDING FOR EMPLOYEE RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLANS

Due to a legislative change effective July 1, 2023, the State now fully funds retirement-related fringe benefit costs for eligible Hospital employees. The Hospital no longer is charged for contributions to State-administered pension and OPEB plans through a fringe benefit rate assessment. However, because the measurement period for fiscal year 2024 still reflected prior allocations, the Hospital continued to report related balances in that year. Due to both the legislative change and the timing of the measurement period, the Hospital will no longer recognize pension and OPEB liabilities, related deferred outflows and inflows, and related expenses in its financial statements. As a result, the derecognition of these amounts was recorded as a special item in the accompanying Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2025. See Note 12 for further details on the accounting treatment and financial statement impact.

Additionally, since the Hospital is included as an enterprise fund of the State and is not a legally separate entity, retirement costs funded directly by the State are not reflected as on-behalf revenues or expenses and therefore are not reflected as fringe benefit expense in the accompanying financial statements. For additional information on the State's funding structure and legislative background, see Note 10.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

PENSION LIABILITIES

For fiscal years prior to 2025, the Hospital recorded its proportionate share of the collective net pension liability and collective pension expense for each defined benefit plan offered to its employees. The pro-rata share of the pension liability was calculated based on the percentage of contributions to the plan in the valuation year. The collective net pension liability for each plan was measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability was the portion of the actuarial present value of projected benefit payments that are attributable to past periods of plan member service. Information about the fiduciary net position and additions to/deductions from each pension plan's fiduciary net position has been determined on the same basis as they are reported by each pension plan. For this purpose, plan member contributions are recognized in the period in which the contributions are due. Hospital contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For fiscal year 2024, the Hospital recorded its proportionate share of the net pension liability based on the valuations performed as of June 30, 2023. Based on the legislative changes discussed, the Hospital did not recognize a proportionate share of the net pension liability and therefore recognized no net pension liability for fiscal year 2025.

OPEB LIABILITIES

For fiscal years prior to 2025, individuals who were employed by the Hospital were eligible to participate in the State's group health plan and were also eligible to continue benefits upon retirement. Retirees under age 65 pay the same premium for medical, prescription drug and dental benefits as active employees, which results in an implicit rate subsidy and OPEB liability. For this purpose, plan member contributions were recognized in the period in which the contributions were due. Hospital contributions were recognized in the period in which the contributions were appropriated. Benefits and refunds were recognized when due and payable in accordance with the terms of each plan. The Hospital recorded its proportionate share of the net OPEB liability for the fiscal year ended June 30, 2024 based on valuations performed as of June 30, 2023. Based on the legislative changes discussed, the Hospital did not recognize a proportionate share of the net OPEB liability and therefore recognized no net OPEB liability for fiscal year 2025.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows of resources are defined as the consumption of net assets in one period that are applicable to future periods and will not be recognized as an outflow of resources (expense) until then. These amounts are reported in the statement of net position in a separate section, after total assets. Prior to fiscal year 2025, the Hospital had two items that meet this criterion, pension deferrals and OPEB deferrals. Historically, Hospital contributions to the pension and OPEB plans made subsequent to the measurement date of the net pension and net OPEB liabilities have been reported as deferred outflows or resources. However, due to legislative changes, the Hospital did not make contributions to these plans after June 30, 2023. See Note 9 for details on these changes and how retirement and OPEB costs are being managed by the State.

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 Hospital previously reported pension, OPEB, and lease deferrals under this category. However, due to legislative changes, pension and OPEB deferrals are no longer applicable for fiscal year 2025. Refer to Note 9 for details on these changes and the management of retirement and OPEB costs.

DUE TO STATE OF CONNECTICUT

Due to State of Connecticut reported on the statements of net position represents the respective Hospital borne fringe benefit costs owed at the end of the fiscal year related to accrued salaries.

COMPENSATED ABSENCES

The Hospital's employees earn vacation, personal, compensatory, and sick time at varying rates depending on their collective bargaining units. The Hospital recognizes a liability for compensated absences in accordance with GASB Statement No. 101, *Compensated Absences*. This liability includes amounts attributable to services already rendered by employees, where the leave:

- Accumulates into future reporting periods,
- Is more likely than not to be used or paid,
- Is based on the pay rate in effect as of the financial statement date.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

COMPENSATED ABSENCES (CONTINUED)

The accrual includes vacation, sick (to the extent it meets recognition criteria), and other paid leave benefits that are expected to be used or paid out. The accrual includes salary-related payments such as the employer's share of payroll taxes. Leave types such as parental, military, and jury duty are recognized only when the leave commences. Holidays are not accrued until used.

THIRD-PARTY PAYORS

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

MEDICAL MALPRACTICE

Health care providers and support staff of the Hospital are fully protected by State Statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for lawsuits against the State, as allowed by the waiver of statutory immunity, are covered by UConn Health's malpractice self-insurance. UConn Health allocates an annual malpractice premium to the Hospital, designed to reflect an estimate of the current fiscal year's cash claims to be processed. For the fiscal years ended June 30, 2025 and 2024, annual premiums were approximately \$4.3 million, respectively. These premiums are included in insurance expense in the Hospital's Statements of Revenues, Expenses, and Changes in Net Position. The due to UConn Health Malpractice Fund reported on the Statements of Net Position represents premiums payable for occurrence based coverage through June 30, 2025 and 2024, respectively.

NET POSITION

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

REGULATORY MATTERS

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

SUBSEQUENT EVENTS

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through November 20, 2025, the date the financial statements were available to be issued. No subsequent events required recognition or disclosure in the financial statements were identified.

NOTE 2 – RECENTLY ADOPTED AND UPCOMING ACCOUNTING PRONOUNCEMENTS

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*. For fiscal year ended, June 30, 2025, the adoption of GASB 100 was considered with the adoption of GASB 101, *Compensated Absences* as a change in accounting principle.

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.

The Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used or paid for time off or otherwise paid in cash or settled by noncash means. The Hospital adopted the requirements of this Standard as of July 1, 2024 and has applied the provisions of this Statement to the beginning of the earliest comparative period presented.

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. The Hospital adopted this Statement on July 1, 2024 and has evaluated certain circumstances and does not have issues to disclose that have not been addressed in the footnotes of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2025, the Hospital adopted accounting pronouncement GASB 101, resulting in a change in accounting principle. GASB 101, which addresses the accounting and financial reporting of compensated absences, superseded GASB Statement No. 16, *Accounting for Compensated Absences*. As part of adopting GASB 101, the Hospital restated the beginning balances of compensated absences liabilities as of July 1, 2024, by \$15.8 million. The most significant impact resulting from the adoption was a change in the accounting for sick leave, which is now recognized as a liability when it is more likely than not to be used or paid, in accordance with GASB 101.

The impact of adopting GASB 101 on select accounts on the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position as of June 30, 2024 was as follows:

| Combined Statement of Net Position | June 30, 2024 As Previously Reported | Adjustment | June 30, 2024 As Restated |
|--|--|-----------------|------------------------------|
| Current Liabilities | | | |
| Accrued compensated absences, current portion | \$ 10,326,782 | \$ 14,000,475 | \$ 24,327,257 |
| Noncurrent Liabilities | | | |
| Accrued compensated absences, net of current portion | 12,439,491 | 3,684,294 | 16,123,785 |
| Net Position | \$ (511,945,112) | \$ (17,684,769) | \$ (529,629,881) |
| Combined Statement of Revenues, Expenses, and Changes in Net Position | | | |
| Operating Expenses | | | |
| Salaries and wages | \$ 264,042,860 | \$ 1,794,878 | \$ 265,837,738 |
| Fringe benefits | 196,168,993 | 137,260 | 196,306,253 |
| Cumulative effect of implementing GASB 101 | - | (15,752,631) | (15,752,631) |
| Net Position | \$ (511,945,112) | \$ (17,684,769) | \$ (529,629,881) |

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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

UPCOMING ACCOUNTING PRONOUNCEMENTS

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 Hospital is currently evaluating the impact this standard will have on its financial statements.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide essential information about certain types of capital assets in order to make informed decisions and assess accountability between governments. This Statement is effective for fiscal years beginning after June 15, 2025. The Hospital is currently evaluating the impact this standard will have on its financial statements.

NOTE 3 – HYPOTHECATION

In accordance with State Statute, the Hospital can borrow from the State up to 90% of its net patient accounts receivables and contract and other receivables to fund operations. As of June 30, 2025 and 2024, the Hospital had not drawn down any funds under the hypothecation. As of June 30, 2025 and 2024, the Hospital had available amounts of \$69,108,572 and \$56,395,029 respectively, under State Statute.

NOTE 4 – CHARITY CARE

The Hospital maintains records to monitor the level of charity care provided, including charges forgone, estimated costs, and service volumes. In fiscal year 2025, the Hospital revised its financial assistance policy to include insured patients, consistent with national trends.

For the years ended June 30, 2025 and 2024, the Hospital provided charity care services of \$12,104,762 and \$8,395,629, respectively. The implementation of an automated approval process in fiscal year 2024 has contributed to the increase in the number of individuals receiving charity care. There is a growing need for financial assistance due to an increase in the uninsured population and household debt. Many uninsured patients who were previously on Medicaid have transitioned to charity care in fiscal year 2025.

The estimated cost of these services was \$3,357,861 and \$2,323,071, respectively, for the fiscal years ended June 30, 2025 and 2024. No net patient service revenue was recorded for these services; however, expenses associated with these services are included in operating expenses in the statements of revenues, expenses, and changes in net position.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 5 – NET PATIENT SERVICE REVENUES

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

| | 2025 | 2024 |
|--|------------------|------------------|
| Gross patient service revenues | \$ 2,333,715,826 | \$ 1,983,403,654 |
| Less contractual allowances and provision for bad debt | (1,605,418,763) | (1,323,002,217) |
| Net patient service revenues | \$ 728,297,063 | \$ 660,401,437 |

SIGNIFICANT CONCENTRATIONS

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

| | Medicare | | Medicaid | |
|---------------------|----------|------|----------|------|
| | 2025 | 2024 | 2025 | 2024 |
| Net revenue | 39% | 38% | 16% | 16% |
| Accounts receivable | 36% | 29% | 7% | 6% |

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

MEDICARE

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 5 – NET PATIENT SERVICE REVENUES (CONTINUED)

SIGNIFICANT CONCENTRATIONS (CONTINUED)

The Hospital is reimbursed for Direct Graduate Medical Education (GME) and Medicare Bad Debts at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through fiscal year 2021.

MEDICAID

Beginning January 1, 2015, Medicaid converted to an APR DRG Prospective Payment Methodology. Payments for inpatient services for patients admitted after January 1, 2015 have settlement distributions for GME and Case Mix Index withholds only. Beginning July 1, 2016, outpatient services rendered to patients are reimbursed based on the outpatient prospective payment system (OPPS) Ambulatory Payment Classification (APC) Methodology. Under the OPPS, services are listed on the Connecticut Medical Assistance Program (CMAP) Addendum B and are primarily reimbursed based on the CMAP APC system. CMAP Addendum B is a detailed list by procedure code that documents the APC group, status indicators, and relative weights adopted by Department of Social Services (DSS) for the APC methodology. CMAP Addendum B also documents the services that are not paid by APC and are instead reimbursed based on the Outpatient Hospital Fee Schedule or another specialized fee schedule.

The following is a schedule of supplemental payments received from DSS for both fiscal years 2025 and 2024, which is included in net patient service revenues in the Statements of Revenues, Expenses and Changes in Net Position:

| | <u>2025</u> | <u>2024</u> |
|---------------------------------|----------------------|----------------------|
| DSS supplemental revenue | \$ 8,200,000 | \$ 8,200,000 |
| DSS taxonomy revenue | 2,617,567 | 2,313,799 |
| Total revenue received from DSS | <u>\$ 10,817,567</u> | <u>\$ 10,513,799</u> |

COMMERCIAL INSURANCE AND MANAGED CARE

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 5 – NET PATIENT SERVICE REVENUES (CONTINUED)

CONTRACT MANAGEMENT SYSTEM

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

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

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

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the fiscal year to assist in determining the reasonableness of its process for estimating the allowance for uncollectible accounts.

NOTE 6 – CONTRACT AND LEASE RECEIVABLES

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

The 340B Act of 1992, established by the Veterans Health Care Act of 1992, requires drug manufacturers participating in Medicare and Medicaid to provide outpatient drugs at significantly reduced prices to certain eligible health care providers, referred to as covered entities. The Hospital qualifies as a Covered Entity under the 340B Drug Pricing Program, allowing it to purchase outpatient drugs at reduced prices. Through contract pharmacy arrangements, including a Bill-to, Ship-to model, the Hospital partners with multiple pharmacies to dispense 340B drugs to eligible patients.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 6 – CONTRACT AND LEASE RECEIVABLES (CONTINUED)

Due to manufacturer restrictions, limiting 340B pricing to a single pharmacy, UConn Health designated UHPSI, as its primary contract pharmacy to optimize savings. Income from 340B activity is reported in two categories: external contract pharmacy income and internal UHPSI income.

For the fiscal years ended June 30, 2025 and 2024, revenue related to contractual income totaled \$12,692,017 and \$9,973,677, respectively. Revenue related to internal income through our designated contract pharmacy UHPSI totaled \$75,133,635 and \$52,065,043 for the fiscal years ended June 30, 2025 and 2024, respectively.

The Hospital has contracts to provide rental space and nursing resources to Connecticut Children’s Medical Center (CCMC) in its operation of the Neonatal Intensive Care Unit (NICU) on the Hospital’s campus. During the fiscal year ended June 30, 2025, revenue related to the contract with CCMC’s NICU for rental space and nursing resources totaled \$1,826,509 and \$15,558,933, respectively. During the fiscal year ended June 30, 2024, revenue related to the contract with CCMC’s NICU for rental space and nursing resources totaled \$2,060,637 and \$14,982,602, respectively.

Lease receivable related to the contract with CCMC for the fiscal years ended June 30, 2025 and 2024 is as follows:

| | June 30, 2024 Balance | Additions | Deductions | June 30, 2025 Balance | Amount due within 1 year |
|------------------------|--------------------------|--------------|---------------|--------------------------|-----------------------------|
| Lease receivable total | \$2,171,140 | \$13,821,007 | \$(2,295,237) | \$13,696,910 | \$ 999,965 |
| | June 30, 2023 Balance | Additions | Deductions | June 30, 2024 Balance | Amount due within 1 year |
| Lease receivable total | \$4,245,581 | \$ 140,645 | \$(2,215,086) | \$ 2,171,140 | \$2,171,140 |

For the fiscal years ended June 30, 2025 and 2024, the statements of revenues, expenses and changes in net position included lease revenue of \$2,208,831 and \$2,215,086, respectively, and interest income of \$162,005 and \$118,970, respectively. The Hospital recorded no additional revenue for variable or other payments in the measurement of the lease receivables.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 6 – CONTRACT AND LEASE RECEIVABLES (CONTINUED)

| Fiscal Year Ending June 30 | Lease Receivables | |
|----------------------------|----------------------|---------------------|
| | Principal | Interest |
| 2026 | \$ 999,965 | \$ 923,131 |
| 2027 | 1,071,933 | 851,163 |
| 2028 | 1,149,080 | 774,016 |
| 2029 | 1,231,780 | 691,316 |
| 2030 | 1,320,432 | 602,664 |
| 2031-2035 | 7,923,720 | 1,443,734 |
| | <u>\$ 13,696,910</u> | <u>\$ 5,286,024</u> |

NOTE 7 – CAPITAL AND INTANGIBLE ASSETS, NET

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

| | <u>2025</u> | <u>2024</u> |
|---|-----------------------|-----------------------|
| Land | \$ 183,137 | \$ 183,137 |
| Construction in progress (estimated costs to complete of \$20.4 million and \$17.5 million at June 30, 2025 and 2024, respectively) | 9,545,500 | 15,746,576 |
| Buildings | 419,021,640 | 405,904,889 |
| Equipment | 80,887,387 | 81,711,248 |
| Computer software | 57,071,123 | 57,557,183 |
| Equipment -financed | 71,009 | 71,009 |
| Total capital and intangible assets | <u>566,779,796</u> | <u>561,174,042</u> |
| Less accumulated depreciation and amortization | <u>265,686,275</u> | <u>252,381,367</u> |
| Capital and intangible assets, net | <u>\$ 301,093,521</u> | <u>\$ 308,792,675</u> |
| Right-to-use assets - building | \$ 92,499,811 | \$ 94,465,448 |
| Right-to-use assets - equipment | 15,427,132 | 12,378,139 |
| Right-to-use assets - subscription | 26,331,257 | 24,989,280 |
| Total right-to-use assets | <u>134,258,200</u> | <u>131,832,867</u> |
| Less accumulated amortization | <u>58,172,597</u> | <u>52,866,751</u> |
| Right-to-use assets, net | <u>\$ 76,085,603</u> | <u>\$ 78,966,116</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 7 – CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

For the fiscal years ended June 30, 2025 and 2024, the Hospital received transfers related to projects of approximately \$20.6 million and \$10.4 million, respectively.

| | 2024 | Additions | Deductions | 2025 |
|--|-----------------------|----------------------|------------------------|-----------------------|
| Land | \$ 183,137 | \$ - | \$ - | \$ 183,137 |
| Construction in progress | 15,746,576 | 9,768,203 | (15,969,279) | 9,545,500 |
| Buildings | 405,904,889 | 13,415,934 | (299,183) | 419,021,640 |
| Equipment | 81,711,248 | 6,770,981 | (7,594,842) | 80,887,387 |
| Computer software | 57,557,183 | 314,940 | (801,000) | 57,071,123 |
| Equipment - financed | 71,009 | - | - | 71,009 |
| Total capital and intangible assets | \$ 561,174,042 | \$ 30,270,058 | \$ (24,664,304) | \$ 566,779,796 |

| | 2023 | Additions | Deductions | 2024 |
|--|-----------------------|----------------------|-----------------------|-----------------------|
| Land | \$ 183,137 | \$ - | \$ - | \$ 183,137 |
| Construction in progress | 7,664,330 | 10,299,803 | (2,217,557) | 15,746,576 |
| Buildings | 404,148,697 | 1,780,177 | (23,985) | 405,904,889 |
| Equipment | 73,277,227 | 12,007,077 | (3,573,056) | 81,711,248 |
| Computer software | 56,978,642 | 742,603 | (164,062) | 57,557,183 |
| Equipment - financed | 71,009 | - | - | 71,009 |
| Total capital and intangible assets | \$ 542,323,042 | \$ 24,829,660 | \$ (5,978,660) | \$ 561,174,042 |

Related information on accumulated depreciation for the years ended June 30, 2025 and 2024 was as follows:

| | 2024 | Additions | Deductions | 2025 |
|---------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Buildings | \$ 156,834,672 | \$ 10,730,627 | \$ (299,183) | \$ 167,266,116 |
| Equipment | 58,124,865 | 5,577,101 | (7,323,723) | 56,378,243 |
| Computer software | 37,350,821 | 5,421,086 | (801,000) | 41,970,907 |
| Equipment - financed | 71,009 | - | - | 71,009 |
| Total accumulated depreciation | \$ 252,381,367 | \$ 21,728,814 | \$ (8,423,906) | \$ 265,686,275 |

| | 2023 | Additions | Deductions | 2024 |
|---------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Buildings | \$ 146,927,310 | \$ 9,931,347 | \$ (23,985) | \$ 156,834,672 |
| Equipment | 56,936,696 | 4,698,599 | (3,510,430) | 58,124,865 |
| Computer software | 32,134,167 | 5,380,716 | (164,062) | 37,350,821 |
| Equipment - financed | 53,257 | 17,752 | - | 71,009 |
| Total accumulated depreciation | \$ 236,051,430 | \$ 20,028,414 | \$ (3,698,477) | \$ 252,381,367 |

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 7 – CAPITAL AND INTANGIBLE ASSETS, NET (CONTINUED)

Activity for the Right-to-use assets for the fiscal years ended June 30, 2025 and 2024 was as follows:

| | 2024 | Additions | Deductions | 2025 |
|------------------------------------|-----------------------|---------------------|-----------------------|-----------------------|
| Right-to-use assets - building | \$ 94,465,448 | \$ 1,761,348 | \$ (3,726,985) | \$ 92,499,811 |
| Right-to-use assets - equipment | 12,378,139 | 3,512,491 | (463,498) | 15,427,132 |
| Right-to-use assets - subscription | 24,989,280 | 1,822,067 | (480,090) | 26,331,257 |
| Total right-to-use assets | \$ 131,832,867 | \$ 7,095,906 | \$ (4,670,573) | \$ 134,258,200 |

| | 2023 | Additions | Deductions | 2024 |
|------------------------------------|-----------------------|---------------------|-----------------------|-----------------------|
| Right-to-use assets - building | \$ 94,396,692 | \$ 99,343 | \$ (30,587) | \$ 94,465,448 |
| Right-to-use assets - equipment | 17,055,500 | 268,882 | (4,946,243) | 12,378,139 |
| Right-to-use assets - subscription | 25,266,114 | 2,784,939 | (3,061,773) | 24,989,280 |
| Total right-to-use assets | \$ 136,718,306 | \$ 3,153,164 | \$ (8,038,603) | \$ 131,832,867 |

Related information on accumulated amortization for the years ended June 30, 2025 and 2024 was as follows:

| | 2024 | Additions | Deductions | 2025 |
|---------------------------------------|----------------------|---------------------|-----------------------|----------------------|
| Right-to-use assets - building | \$ 22,854,116 | \$ 5,654,015 | \$ (3,726,985) | \$ 24,781,146 |
| Right-to-use asset - equipment | 7,705,714 | 2,067,927 | (463,498) | 9,310,143 |
| Right-to-use asset - subscription | 22,306,921 | 2,254,477 | (480,090) | 24,081,308 |
| Total accumulated amortization | \$ 52,866,751 | \$ 9,976,419 | \$ (4,670,573) | \$ 58,172,597 |

| | 2023 | Additions | Deductions | 2024 |
|---------------------------------------|----------------------|----------------------|-----------------------|----------------------|
| Right-to-use assets - building | \$ 17,049,614 | \$ 5,835,089 | \$ (30,587) | \$ 22,854,116 |
| Right-to-use asset - equipment | 10,210,777 | 2,441,180 | (4,946,243) | 7,705,714 |
| Right-to-use asset - subscription | 16,374,825 | 8,993,869 | (3,061,773) | 22,306,921 |
| Total accumulated amortization | \$ 43,635,216 | \$ 17,270,138 | \$ (8,038,603) | \$ 52,866,751 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 8 – LONG-TERM LIABILITIES, LEASES, AND SUBSCRIPTIONS

Activity related to notes payable and other long-term liabilities for the fiscal years ended June 30, 2025 and 2024 is as follows:

| | June 30, 2024 Balance (Restated) | Additions | Deductions | June 30, 2025 Balance | Amounts due within 1 year |
|-----------------------------------|--|----------------------|-------------------------|--------------------------|------------------------------|
| Right-to-use lease liabilities | \$ 82,470,346 | \$ 5,472,323 | \$ (7,049,327) | \$ 80,893,342 | \$ 6,841,772 |
| Right-to-use subscriptions | 13,458,895 | 1,894,868 | (5,524,466) | 9,829,297 | 4,803,787 |
| Total leases and subscriptions | <u>\$ 95,929,241</u> | <u>\$ 7,367,191</u> | <u>\$ (12,573,793)</u> | <u>\$ 90,722,639</u> | <u>\$ 11,645,559</u> |
| Other long term liabilities | | | | | |
| Accrued compensated absences | \$ 40,451,042 | \$ 23,590,712 | \$ (19,387,002) | \$ 44,654,752 | \$ 27,944,944 |
| Pension liabilities | 356,834,835 | - | (356,834,835) | - | - |
| OPEB liabilities | 580,578,711 | - | (580,578,711) | - | - |
| Total other long term liabilities | <u>\$ 977,864,588</u> | <u>\$ 23,590,712</u> | <u>\$ (956,800,548)</u> | <u>\$ 44,654,752</u> | <u>\$ 27,944,944</u> |
| Total long-term liabilities | <u>\$ 1,073,793,829</u> | <u>\$ 30,957,903</u> | <u>\$ (969,374,341)</u> | <u>\$ 135,377,391</u> | <u>\$ 39,590,503</u> |

| | June 30, 2023 Balance (Restated) | Additions | Deductions | June 30, 2024 Balance (Restated) | Amounts due within 1 year |
|-----------------------------------|--|-----------------------|-------------------------|--|------------------------------|
| Right-to-use lease liabilities | \$ 88,136,396 | \$ 1,062,080 | \$ (6,728,130) | \$ 82,470,346 | \$ 6,407,722 |
| Right-to-use subscriptions | 16,049,353 | 2,629,033 | (5,219,491) | 13,458,895 | 4,976,303 |
| Total leases and subscriptions | <u>\$ 104,185,749</u> | <u>\$ 3,691,113</u> | <u>\$ (11,947,621)</u> | <u>\$ 95,929,241</u> | <u>\$ 11,384,025</u> |
| Other long term liabilities | | | | | |
| Notes payable | \$ 2,917 | \$ - | \$ (2,917) | \$ - | \$ - |
| Accrued compensated absences | 36,395,990 | 19,730,874 | (15,675,822) | 40,451,042 | 24,327,257 |
| Pension liabilities | 340,558,863 | 106,688,139 | (90,412,167) | 356,834,835 | - |
| OPEB liabilities | 430,420,277 | 259,652,979 | (109,494,545) | 580,578,711 | - |
| Total other long term liabilities | <u>\$ 807,378,047</u> | <u>\$ 386,071,992</u> | <u>\$ (215,585,451)</u> | <u>\$ 977,864,588</u> | <u>\$ 24,327,257</u> |
| Total long-term liabilities | <u>\$ 911,563,796</u> | <u>\$ 389,763,105</u> | <u>\$ (227,533,072)</u> | <u>\$ 1,073,793,829</u> | <u>\$ 35,711,282</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 8 – LONG-TERM LIABILITIES, LEASES, AND SUBSCRIPTIONS (CONTINUED)

The Hospital routinely leases various facilities and equipment instead of purchasing assets. The lease contracts, at times, 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. There were no residual guarantee payments expensed for the fiscal years ended June 30, 2025 and 2024. For the fiscal years ended June 30, 2025 and 2024, the Hospital recognized expense for lease variable payments as summarized in the table below:

| | 2025 Expenses Allocated | 2024 Expenses Allocated |
|----------------------|-------------------------------|-------------------------------|
| Common area expenses | \$ 113,639 | \$ 89,083 |
| Property taxes | 24,843 | 64,164 |
| Grand total | \$ 138,482 | \$ 153,247 |

The following is a schedule by fiscal year of future minimum payments due for leases with the present value of the net minimum lease payments as of June 30, 2025.

| Fiscal Year Ending June 30: | Lease Liabilities | |
|-----------------------------|-------------------|---------------|
| | Principal | Interest |
| 2026 | \$ 6,841,772 | \$ 3,855,755 |
| 2027 | 6,324,454 | 3,493,768 |
| 2028 | 5,670,940 | 3,154,076 |
| 2029 | 5,255,984 | 2,865,053 |
| 2030 | 5,355,316 | 2,584,169 |
| 2031-2035 | 25,010,986 | 9,348,371 |
| 2036-2040 | 26,433,890 | 3,165,400 |
| Total lease liabilities | \$ 80,893,342 | \$ 28,466,592 |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 8 – LONG-TERM LIABILITIES, LEASES, AND SUBSCRIPTIONS (CONTINUED)

The Hospital has entered various subscription-based information technology arrangements (SBITAs) to support its services. SBITAs entered into, or in place, during the fiscal years ended June 30, 2025 and 2024 include:

- Various desktop and server software subscriptions;
- Electronic workflow software;
- Budgeting, accounting, and information system software;
- Performance measurement/benchmarking software;
- Document management software;
- Payroll and human resources services software; and
- Information technology security software.

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

| Fiscal Year Ending June 30: | Subscription Liabilities | |
|--------------------------------|--------------------------|------------|
| | Principal | Interest |
| 2026 | \$ 4,803,787 | \$ 365,027 |
| 2027 | 2,840,887 | 177,067 |
| 2028 | 2,008,521 | 51,425 |
| 2029 | 84,565 | 9,153 |
| 2030 | 56,194 | 4,225 |
| 2031-2035 | 35,343 | 2,135 |
| Total subscription liabilities | \$ 9,829,297 | \$ 609,032 |

The Hospital had no other outflows of resources in relation to these subscriptions during the fiscal years ended June 30, 2025 and 2024 that were not included in the measurement of the subscription liability.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS

STATE RETIREMENT SYSTEMS

The Hospital offers two defined benefit plans administered through the State: the State Employees Retirement System (SERS) and the Connecticut Teachers' Retirement System (TRS). SERS and TRS do not issue stand-alone financial reports but are reported as fiduciary funds within the State's Annual Comprehensive Financial Report (ACFR). Financial reports are available on the website of the Office of the State Comptroller at osc.ct.gov.

PLAN DESCRIPTIONS

SERS is a single-employer defined benefit plan that covers substantially all of the State's full-time employees who are not eligible for another State-sponsored retirement plan. The plan is administered by the State Comptroller's Retirement Division under the direction of the State Employees Retirement Commission. SERS consists of Tier I, Tier II, Tier IIA, Tier III, Tier IV, and the Hybrid Plan.

TRS is a cost-sharing multiple-employer defined benefit plan covering any teacher, principal, superintendent, or supervisor engaged in service of public schools in the State. Employees previously qualified for TRS continue coverage during employment with the Hospital and do not participate in any other offered retirement plans. TRS is governed by Chapter 167a of the State General Statutes, as amended through the current session of the State legislature and is administered by the Teachers' Retirement Board.

BENEFITS PROVIDED

SERS provides retirement, disability, and death benefits along with cost-of-living adjustments (COLAs) to plan members and their beneficiaries. Generally, the monthly pension benefit is calculated following a basic formula that takes into consideration average salary, credited service, and age at retirement. The details on plan benefits for the Tier IV Plan, revised COLAs for plan members retiring on or after July 1, 2022, and revised disability retirement requirements are described in the State Employees' Bargaining Agent Coalition (SEBAC) 2017 agreement. Further details on plan benefits, COLAs, and other plan provisions are described in Sections 5-152 to 5-192x of the State General Statutes.

TRS also provides retirement, disability, and death benefits along with annual COLAs to plan members and their beneficiaries. Generally, monthly plan benefits are based on a formula in combination with the member's age, service, and the average of the highest 3 years of paid salaries. Members are 100 percent vested after 10 or more years of credited service. Further information on TRS plan benefits, COLAs, and other plan provisions is described in Sections 10-183b to 10-183ss of the State General Statutes.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

STATE RETIREMENT SYSTEMS (CONTINUED)

CONTRIBUTIONS

The contribution requirements are established and may be amended by the State legislature subject to the contractual rights established by collective bargaining. The State is required to contribute at an actuarially determined rate. Employee contribution rates for the fiscal year ended June 30, 2025 were:

Tier I Hazardous - 6% of earnings up to Social Security Taxable Wage Base plus 7% of earnings above that level

Tier I Plan B - 4% of earnings up to Social Security Taxable Base plus 7% of earnings above that level

Tier I Plan C - 7% of earnings

Tier II Hazardous - 6% of earnings

Tier II (all others) - 2% of earnings

Tier IIA and III Hazardous - 7 % of earnings

Tier IIA and III (all others) - 4% of earnings

Tier IV Hazardous - 8% of earnings*

Tier IV (all others) - 5% of earnings*

*Contributions may vary for anyone electing to maintain retirement eligibility in accordance with the SEBAC 2017 agreement, in years where asset losses require further increases in contributions, Tier IV employees' contributions may increase by half the necessary increase in rates (up to 2%). Finally, all Tier IV employees must contribute 1% to the defined benefit component of the Hybrid Plan and may elect additional contributions of up to 3% of salary. The State is required to contribute at an actuarially determined rate to the defined benefit component and 1% of eligible compensation to the defined contribution component.

Individuals hired on or after July 1, 2011, and before July 1, 2017, who were otherwise eligible for the ARP, were also eligible to become members of the Hybrid Plan. The Hybrid Plan has defined benefits identical to Tiers II, IIA, and III, but requires employee contributions 3% higher than the contribution required from the applicable Tier II, IIA, or III Plan.

TRS contribution requirements are established by and may be amended by the State legislature. Plan members including municipal employers are required to contribute 7% of their annual salary. Employer contributions are funded by the State on behalf of the participating municipal employers, which is considered a special funding situation. However, this special funding situation does not apply to the Hospital, an agency of the State, because there is not a separate non-employer contributing entity.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

STATE RETIREMENT SYSTEMS (CONTINUED)

Effective July 1, 2023, legislation altered the Hospital's funding structure for employer contributions to the SERS and TRS (see Note 10). Beginning in fiscal year 2024, the State assumed responsibility for these contributions, and the Hospital did not make any payments to SERS or TRS. As a result, no deferred outflows of resources were reported as of June 30, 2024, for contributions made after the measurement date.

PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY (NPL) AND PENSION EXPENSE.

In prior years, the Hospital's proportionate share of the NPL was determined by its share of total contributions to each plan. Due to the legislative changes effective after June 30, 2023, the Hospital's proportionate share was reduced to zero for both plans as of the June 30, 2024 measurement date, reflecting the State's full funding of contributions. As of the June 30, 2023 measurement date, the Hospital's proportion was 1.70% for SERS and 0.02% for TRS.

With a zero percent proportionate share, the Hospital removed all related pension liabilities, deferred inflows, and deferred outflows from its financial statements for fiscal year 2025. This removal was recorded as a special item in the Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2025, rather than being amortized as a change in proportionate share through pension expense. Additional details are provided in Note 12.

The Hospital's proportionate share of the collective NPL at June 30, 2024 (based on the June 30, 2023 measurement date), and related pension expense for fiscal year 2024 consisted of the following:

| | SERS | TRS | Total |
|---|-----------------------|----------|------------|
| | <i>(in thousands)</i> | | |
| Proportionate share of the collective NPL | \$ 353,059 | \$ 3,775 | \$ 356,834 |
| Pension Expense | \$ 55,361 | \$ 680 | \$ 56,041 |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

STATE RETIREMENT SYSTEMS (CONTINUED)

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

At June 30, 2024, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the SERS and TRS plan from the following sources:

| | SERS | | TRS | |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| | <i>(in thousands)</i> | | | |
| Changes in proportionate allocation of pension expense | \$ 61,679 | \$ - | \$ - | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 6,715 | - | 154 | - |
| Difference between expected and actual experience | 36,911 | - | 134 | 30 |
| Net difference between employer contribution and proportionate share | - | 68,906 | 1,172 | 2 |
| Changes in assumptions | - | 359 | 274 | - |
| | \$ 105,305 | \$ 69,265 | \$ 1,734 | \$ 32 |

ACTUARIAL METHODS AND ASSUMPTIONS (SERS/TRS)

The total SERS and TRS pension liability in the June 30, 2024 and 2023 actuarial valuations was determined based on the results of an actuarial experience study for the period July 1, 2015 – June 30, 2020. The Mortality Table was used for the period after service retirement and for dependent beneficiaries. The key actuarial assumptions are summarized below:

| | |
|----------------------------|--|
| Inflation: | 2.50% |
| Salary increase: | 3.50% - 11.50%, including inflation |
| Investment rate of return: | 6.90%, net of pension plan investment expense, including inflation |

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

STATE RETIREMENT SYSTEMS (CONTINUED)

DISCOUNT RATE (SERS/TRS)

The discount rate used to measure the total pension liability was the long-term expected rate of return of 6.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rates and that Hospital contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected for June 30, 2024 through the year 2127.

EXPECTED RATE OF RETURN ON INVESTMENTS (SERS/TRS)

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

EXPECTED RATE OF RETURN ON INVESTMENTS (SERS/TRS) (CONTINUED)

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class for June 2024 are summarized in the following table for SERS and TRS:

| | Actuarial Valuation Year June 30, 2024 | |
|--------------------------------------|---|---|
| | Target | Long-Term |
| <u>Asset Class</u> | <u>Allocation</u> | <u>Expected Real Rate of Return</u> |
| Global Equity | 37% | 6.8% |
| Private Equity | 15% | 11.2% |
| Core Fixed Income Fund | 13% | 0.4% |
| Real Estate Fund | 10% | 6.2% |
| Private Credit | 10% | 6.1% |
| Infrastructure and Natural Resources | 7% | 7.7% |
| Risk Mitigation | 5% | 0.1% |
| Public Credit | 2% | 2.9% |
| Liquidity Fund | 1% | (0.4)% |
| | <u>100%</u> | |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

STATE RETIREMENT SYSTEMS (CONTINUED)

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

The following table presents the Hospital's proportionate share of the net pension liability as of June 30, 2024, calculated using the discount rate of 6.90%, as well as the proportionate share of the net pension liability using a 1.00% increase or decrease from the current discount rate:

| | 1% | Discount | 1% |
|--|-----------------------|----------|----------|
| | Decrease | Rate | Increase |
| | (5.90%) | (6.90%) | (7.90%) |
| | <i>(in thousands)</i> | | |

| | | | |
|--|------------|------------|------------|
| Hospital's proportionate share of the net pension liability | \$ 438,216 | \$ 353,059 | \$ 282,072 |
|--|------------|------------|------------|

ALTERNATE RETIREMENT PLAN

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

All unclassified employees, not already in a pension plan, of a constituent unit of the State system of higher education and the central office staff of the Department of Higher Education, are eligible to participate in the ARP.

ARP contribution requirements are established by and may be amended by the State legislature subject to the contractual rights established by collective bargaining. The SEBAC 2017 agreement amended certain provisions for ARP by revising employee and employer contribution rates. Participants hired before September 1, 2017, must contribute 5% of their eligible compensation, and their employer must contribute 7% of eligible compensation. Participants hired on or after September 1, 2017, have the option to contribute 6.5% or 5% of their eligible compensation, and their employer must contribute 6.5% of eligible compensation. There is no minimum vesting period for ARP. Other ARP provisions are described in Chapter 66 of the State General Statutes, *State Employees Retirement Act*.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

ALTERNATE RETIREMENT PLAN (CONTINUED)

Legislation effective July 1, 2023, changed the Hospital's State funding structure concerning employer contributions (see Note 12). As a result, for the fiscal year ended June 30, 2025 and 2024, the Hospital did not make any contributions or report retirement expenses for ARP, as these were funded by the State.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The State provides OPEB benefits to the Hospital's employees through the State Employee OPEB Plan (SEOPEBP). SEOPEBP does not issue stand-alone financial reports but is reported as a fiduciary fund within the State's ACFR. Financial reports are available on the website of the Office of the State Comptroller.

GENERAL INFORMATION ABOUT THE SEOPEBP

PLAN DESCRIPTION

SEOPEBP is a single-employer defined benefit OPEB plan that covers employees of the State who are receiving benefits from a qualifying State-sponsored retirement system. This plan is administered by the State Comptroller's Healthcare Policy and Benefits Division under the direction of the State Employees Retirement Commission.

BENEFITS PROVIDED

SEOPEBP provides healthcare benefits to eligible retirees and their spouses, as well as life insurance benefits to employees when they retire. The State may pay up to 100% of the healthcare insurance premium cost for eligible retirees. In addition, the State pays 100% of the premium cost for a portion of the employees' life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined by a formula based on the number of years of State service that the retiree had at the time of retirement. Employees hired prior to July 1, 2011, are vested for retiree health benefits upon completion of 10 years of actual State service. Employees hired on or after July 1, 2011, are vested for retiree health benefits upon completion of 15 years of actual State service. If employees should resign from service prior to reaching the age for early or normal retirement eligibility, the employee would be able to receive the retiree health benefits according to the Rule of 75 (age + service = 75). Plan benefits and other plan provisions are described in sections 5-257 and 5-259 of the State General Statutes. Further information regarding plan changes affecting employees retiring on or after October 2, 2017, is described in the SEBAC 2017 agreement.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

GENERAL INFORMATION ABOUT THE SEOPEBP (CONTINUED)

Contributions

SEOPEBP is primarily funded on a pay-as-you-go basis for non-contributory members and 100% for contributory members through an annual appropriation in the General Fund. The contribution requirements of the plan members and the State are established and may be amended by the State legislature or by agreement between the State and employee unions, upon approval by the State legislature. Current active employees contribute a percentage of their salary to the Retiree Health Care Trust Fund (RHCF) for pre-funding of OPEB benefits. Employees hired prior to July 1, 2017, contribute 3% of their salary for a period of 10 years or until retirement, whichever is sooner. In accordance with the SEBAC 2017 agreement, employees hired on or after July 1, 2017, contribute 3% of their salary for 15 years. Contributions are refundable to employees who leave State employment prior to completing the required years of service.

Similar to pension, effective July 1, 2023, legislation altered the Hospital's funding structure for employer contributions to the SEOPEBP (see Note 10). Beginning in fiscal year 2024, the State assumed responsibility for these contributions, and the Hospital did not make any payments to SEOPEBP. As a result, no deferred outflows of resources were reported as of June 30, 2024, for contributions made after the measurement date.

PROPORTIONATE SHARE OF THE COLLECTIVE NET OPEB LIABILITY (NOL) AND OPEB EXPENSE

In prior years, the Hospital's proportionate share of the NOL was determined by its share of total contributions. As of the June 30, 2023 measurement date, the Hospital's proportion was 3.72%. The Hospital's OPEB liability of \$580.6 million as of June 30, 2024 for its proportionate share of the net OPEB liability was measured as of June 30, 2023 based on an actuarial valuation that was rolled forward to June 30, 2024. The Hospital's proportion of the net OPEB liability was based on the Hospital's percentage of total overall contributions to the plan.

With a zero percent proportionate share, the Hospital removed all related OPEB liabilities, deferred inflows, and deferred outflows from its financial statements. This removal was recorded as a special item in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2025, rather than being amortized as a change in proportionate share through OPEB expense. Additional details are provided in Note 12.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

GENERAL INFORMATION ABOUT THE SEOPEBP (CONTINUED)

EMPLOYEES COVERED BY BENEFIT TERMS

Demographic data for individual State entities in the SEOPEBP is not readily available. At June 30, 2023, the SEOPEBP was based on plan membership at June 30, 2023, covering the following:

| | 2023 |
|--|---------|
| Inactive employees or beneficiaries currently receiving benefit payments | 85,696 |
| Inactive employees entitled to but not yet receiving benefit payments | 470 |
| Active employees | 50,078 |
| Total covered employees | 136,244 |

ACTUARIAL METHODS AND ASSUMPTIONS (SEOPEBP)

The total OPEB liability in the June 30, 2024 actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | Actuarial valuation year June 30, 2024 |
|--|--|
| Actuarial experience study: | July 1, 2015 - June 30, 2020 |
| Payroll growth rate: | 3.00% |
| Inflation: | 2.50% |
| Salary increase: | 3.00% to 11.5% varying by years of service and retirement systems, including inflation |
| Discount rate: | 6.9% for contributory members and 3.65% for non-contributory members as of June 30, 2023 |
| Healthcare cost trends rates | |
| Medical(Non-Medicare) | - .35%, then 5.75% decreasing by .25% each year to an ultimate level of 4.5% each year |
| Prescription Drug (Non-Medicare) | 2.35%, then 6.5% decreasing by .25% each year to an ultimate level of 4.5% each year |
| Medical and Prescription (Medicare) | 32.51%, 59.22%, 28.24% then 5.75% decreasing by .25% each year to an ultimate level of 4.5% per year |
| Dental | 2.6%, 4.45%, then an ultimate level of 3.0% per year |
| Part B | 4.5% per year |
| Administrative expense | 1.85%, 3.3%, then 3.0% per year |
| Retirees' share of benefit-related costs | Contributions, if required, are determined by plan, employee start date and benefit type |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

GENERAL INFORMATION ABOUT THE SEOPEBP (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS (SEOPEBP) (CONTINUED)

The discount rate is a blend of long-term expected rate of return on OPEB Trust assets and a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher (6.90% for contributory members and 3.65% for non-contributory members as of June 30, 2023). The blending is based on the sufficiency of projected assets to make projected benefit payments.

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

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

The following table presents the Hospital's proportionate share of the OPEB liability as of June 30, 2024, using the discount rate of 6.90%, as well as the proportionate share of the net OPEB liability using a 1.00% increase or decrease from the current discount rate:

| | 2024 | | |
|--------------------|---------------------------|-----------------------------|---------------------------|
| | 1% Decrease (5.90%) | Discount Rate (6.90%) | 1% Increase (7.90%) |
| | <i>(in thousands)</i> | | |
| Net OPEB Liability | \$ 675,010 | \$ 580,579 | \$ 503,258 |

The following table presents the net OPEB liability of the Hospital, as well as what the Hospital's proportionate share of the net OPEB liability would be if it were calculated as of June 30, 2024, using health care cost trend rates that are 1% lower or 1% higher than the current health care cost trend rates:

| | Healthcare Cost Trend Rates | | |
|--------------------|-----------------------------|----------------------|----------------|
| | 1% Decrease | Current Valuation | 1% Increase |
| | <i>(in thousands)</i> | | |
| Net OPEB Liability | \$ 502,549 | \$ 580,579 | \$ 676,350 |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 9 – PENSION AND OPEB PLANS (CONTINUED)

GENERAL INFORMATION ABOUT THE SEOPEBP (CONTINUED)

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

For the fiscal years ended June 30, 2024, the Hospital recognized an increase to fringe expense for OPEB of \$66.8 million. At June 30, 2024, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | 2024 | |
|--|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| | <i>(in thousands)</i> | |
| Changes in proportion | \$ 172,389 | \$ - |
| Changes in assumptions or other inputs - outflows | 49,641 | - |
| Changes in assumptions or other inputs - inflows | - | 178,627 |
| Net difference between projected and actual experience in total OPEB liability | 6,065 | 39,678 |
| Net difference between projected and actual earnings | 3,641 | - |
| | \$ 231,736 | \$ 218,305 |

EXPECTED RATE OF RETURN ON INVESTMENTS (SEOPEBP)

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

| | Actuarial Valuation Year June 30, 2024 | |
|--------------------------------------|---|--|
| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
| Global Equity | 37% | 6.8% |
| Private Equity | 15% | 11.2% |
| Core Fixed Income Fund | 13% | 0.4% |
| Real Estate Fund | 10% | 6.2% |
| Private Credit | 10% | 6.1% |
| Infrastructure and Natural Resources | 7% | 7.7% |
| Risk Mitigation | 5% | 0.1% |
| Public Credit | 2% | 2.9% |
| Liquidity Fund | 1% | (0.4)% |
| | 100% | |

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 10 – RELATED PARTY TRANSACTIONS

The expenses reported in the accompanying Statements of Revenues, Expenses, and Changes in Net Position do not include undetermined amounts for salaries, services, and expenses provided to and received from UConn Health and other State agencies.

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

For the fiscal years ended June 30, 2025 and 2024, these Home Office allocations resulted in the following expenses being recorded by the Hospital with an offsetting cash transfer back to UConn Health’s Central Administrative Services business unit:

| Expense Category | 2025 Expenses Allocated | 2024 Expenses Allocated |
|--------------------------------------|-------------------------------|-------------------------------|
| Salaries and wages | \$ 28,778,578 | \$ 23,913,122 |
| Fringe benefits | 7,926,797 | 7,193,456 |
| Internal contractual support | 2,807,279 | 2,491,629 |
| Temporary per diem staff | 1,839,913 | 486,125 |
| Utilities | 6,675,649 | 4,816,237 |
| Outside and other purchased services | 18,903,344 | 16,977,582 |
| Insurance | 135,327 | 261,537 |
| Repairs and maintenance | 6,216,545 | 5,518,958 |
| Debt services | 12,576 | 13,889 |
| Other expenses | <u>1,722,961</u> | <u>1,918,845</u> |
| Total expenses | <u>\$ 75,018,969</u> | <u>\$ 63,591,380</u> |

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 10 – RELATED PARTY TRANSACTIONS (CONTINUED)

For the fiscal years ended June 30, 2025 and 2024, the Hospital received net transfers from UConn Health of \$25.1 million and \$14.9 million, respectively. Fiscal year 2025 transfers from UConn Health included \$4.5 million and \$20.6 million related to fringe benefit support and capital improvements, respectively. In fiscal year 2024, UConn Health transferred \$4.5 million and \$10.4 million to the Hospital related to fringe benefit support and working capital, respectively. These transfers are included in transfers from/to UConn Health in the Statements of Revenues, Expenses and Changes in Net Position.

Amounts due to the State related to the fringe benefit programs as of June 30, 2025 and 2024 are included in the Statements of Net Position.

As more fully described in Note 11, UConn Health charges the Hospital with an annual premium for medical malpractice costs, which is determined annually by UConn Health. The Hospital is not liable beyond the annual premium, but may have future operational subsidies affected by the performance of the Malpractice Fund. Premiums paid by the Hospital were \$4.3 million in 2025 and 2024, respectively.

The Hospital provides medical services to Connecticut's incarcerated patients under UConn Health contracts with the State's Department of Corrections (DOC), including inpatient and outpatient care provided at Medicaid rates. Net patient service revenues related to these UConn Health contracts with the State's DOC totaled \$4,733,626 and \$4,266,030 for the fiscal years ended June 30, 2025 and 2024, respectively.

As disclosed in Note 1, the Finance Corporation performs critical services on behalf of the Hospital. These services include the acquisition, construction, and maintenance of clinical space, such as the Outpatient Pavilion (OP) building. Rental payments to the Finance Corporation for leased space totaled \$6.6 million and \$7.1 million for years 2025 and 2024, respectively.

The Hospital also engages in transactions with UHPSI for pharmacy services including 340B contractual pharmacy services, as disclosed in Note 6. During fiscal years 2025 and 2024, UHPSI paid the Hospital \$58.0 million and \$37.5 million, respectively. In addition, during fiscal years 2025 and 2024, the Hospital allocated pharmacy overhead revenue to UHPSI totaling approximately \$16,064 and \$212,000, respectively. The outstanding due from Finance Corporation and its subsidiaries was \$30.2 million and \$21.0 million at June 30, 2025 and 2024, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 10 – RELATED PARTY TRANSACTIONS (CONTINUED)

The Hospital's pension and OPEB liabilities (Note 9) represent its pro-rata share of the State's overall liabilities for fiscal years prior to 2025 and are not current commitments. Effective July 1, 2023, the State charged the Hospital for only non-retirement fringe benefits. During the fiscal years ended June 30, 2025 and 2024, the Hospital expensed \$78,640,577 and \$196,306,253 (including GASB 68 and 75 related charges for fiscal year 2024 only), respectively, for employee fringe benefits. Related salary costs for 2025 and 2024 were \$295,034,052 and \$265,837,738, respectively.

In June 2023, the Connecticut General Assembly enacted and the Governor signed Public Act 23-204, which includes the State budget for the fiscal years 2024 and 2025 biennium and amends the State's funding structure for constituent units of the State system of higher education. Effective July 1, 2023, the State began directly funding all of the Hospital's employee retirement costs related to the State's retirement systems and the Alternate Retirement Plan. The Hospital remains responsible for funding all employee non-retirement fringe benefit costs.

To achieve a budget-neutral effect, the State reduced the General Fund appropriation that UConn Health receives and no longer associates employee salary and fringe benefit expenses with the General Fund appropriation. For the year ended June 30, 2025 and 2024, the State funded \$88.6 million and \$98.2 million, respectively, of retirement and OPEB costs for the Hospital, which also includes administrative expenses. These amounts are not reported as on-behalf revenues or expenses in the accompanying financial statements.

NOTE 11 – REPORTING OF THE MALPRACTICE FUND

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

NOTE 11 – REPORTING OF THE MALPRACTICE FUND (CONTINUED)

At June 30, 2025 and 2024, UConn Health’s Malpractice Fund had reserves of approximately \$12.8 million and \$10.2 million, respectively, and assets of approximately \$22.2 million and \$20.2 million, respectively. It was estimated that \$3.2 million would be used in fiscal year 2026 for settling cases.

NOTE 12 – SPECIAL ITEM – DERECOGNITION OF PENSION AND OPEB BALANCES

As described in Note 1, in fiscal year 2025 the Hospital recorded a special item for the removal of pension and OPEB balances. This derecognition is classified as a special item under GASB Statements No. 34 *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* and No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* because it is infrequent in occurrence and falls within management control, as demonstrated by their participation and influence in decisions regarding State funding changes.

GASB Statements No. 68 *Accounting and Financial Reporting for Pensions* and No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* do not require allocation of pension and OPEB liabilities to individual funds within the reporting entity unless those liabilities are directly related to and expected to be paid from those funds. Based on this guidance and legislative changes, the Hospital no longer recognizes these liabilities. The derecognition was recorded separately in other changes in net position in the accompanying Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2025.

The total impact of the derecognition was approximately \$886.2 million. The following table shows the increase (decrease) to net position by plan and balance type as of June 30, 2025:

| | SERS | TRS | SEOPEBP | Total |
|--|-----------------------|-----------------|-------------------|-------------------|
| | <i>(in thousands)</i> | | | |
| Net Liability (NPL/NOL) | \$ 353,059 | \$ 3,776 | \$ 580,579 | \$ 937,414 |
| Deferred inflows of resources | 69,265 | 32 | 218,305 | 287,602 |
| Deferred outflows of resources | (105,305) | (1,734) | (231,736) | (338,775) |
| Total derecognition of pension and OPEB balances | <u>\$ 317,019</u> | <u>\$ 2,074</u> | <u>\$ 567,148</u> | <u>\$ 886,241</u> |



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Connecticut Health Center John Dempsey Hospital (21002 Fund) (the Hospital), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements, and have issued our report thereon dated November 20, 2025.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



CliftonLarsonAllen LLP

West Hartford, Connecticut
November 20, 2025

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

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION –
STATE EMPLOYEES' RETIREMENT SYSTEM ONLY**

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | <i>(dollars in thousands)</i> | | | | | | | | | |
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ - | \$ 7,891 | \$ 6,655 | \$ 8,170 | \$ 7,070 | \$ 6,533 | \$ 6,019 | \$ 6,524 | \$ 4,024 | \$ 3,537 |
| Interest | - | 46,215 | 39,270 | 50,967 | 43,960 | 38,182 | 31,024 | 30,636 | 26,310 | 23,387 |
| Differences between expected and actual experience | - | 12,769 | 25,996 | 16,032 | 3,786 | 20,408 | 6,770 | (19,616) | 9,654 | - |
| Change of assumptions | - | - | - | (994) | - | - | - | - | 61,962 | - |
| Benefit payments, including refunds of member contributions | - | (44,339) | (36,496) | (45,884) | (38,750) | (33,890) | (27,530) | (25,205) | (21,691) | (18,886) |
| Change in proportionate allocation of pension liability | (714,492) | 69,156 | (202,509) | 89,057 | 54,937 | 90,629 | 14,444 | 36,632 | 29,897 | 56,513 |
| Net Change in Total Pension Liability | (714,492) | 91,692 | (167,084) | 117,348 | 71,003 | 121,862 | 30,727 | 28,971 | 110,156 | 64,551 |
| Total Pension Liability - Beginning | 714,492 | 622,800 | 789,884 | 672,536 | 601,533 | 479,671 | 448,944 | 419,973 | 309,817 | 245,266 |
| Total Pension Liability - Ending (a) | \$ - | \$ 714,492 | \$ 622,800 | \$ 789,884 | \$ 672,536 | \$ 601,533 | \$ 479,671 | \$ 448,944 | \$ 419,973 | \$ 309,817 |
| Fiduciary Net Position | | | | | | | | | | |
| Contributions - employer | \$ - | \$ 55,515 | \$ 43,645 | \$ 36,810 | \$ 29,402 | \$ 26,308 | \$ 20,231 | \$ 20,949 | \$ 18,872 | \$ 15,628 |
| Contributions - employee | - | 3,796 | 3,098 | 4,012 | 3,506 | 8,153 | 2,719 | 1,800 | 1,687 | 2,133 |
| Net investment income | - | 29,867 | (23,182) | 68,005 | 5,380 | 11,849 | 12,280 | 20,508 | (1) | 3,354 |
| Benefit payments, including refunds of member contributions | - | (44,339) | (36,496) | (45,884) | (38,750) | (33,890) | (27,530) | (25,205) | (21,691) | (18,886) |
| Administrative expenses and other | (361,433) | (30) | 36,266 | 15,979 | (14) | 50 | (49) | (14) | 951 | - |
| Change in proportionate allocation of fiduciary net position | - | 31,645 | (90,208) | 31,916 | 20,209 | 33,184 | 5,236 | 11,609 | 11,731 | 22,343 |
| Net Change in Fiduciary Net Position | (361,433) | 76,454 | (66,877) | 110,838 | 19,733 | 45,654 | 12,887 | 29,647 | 11,549 | 24,572 |
| Fiduciary Net Position - Beginning | 361,433 | 284,979 | 351,856 | 241,018 | 221,285 | 175,631 | 162,744 | 133,097 | 121,548 | 96,976 |
| Fiduciary Net Position - Ending (b) | \$ - | \$ 361,433 | \$ 284,979 | \$ 351,856 | \$ 241,018 | \$ 221,285 | \$ 175,631 | \$ 162,744 | \$ 133,097 | \$ 121,548 |
| Hospital's Net Pension Liability - Ending (a)-(b) | \$ - | \$ 353,059 | \$ 337,821 | \$ 438,028 | \$ 431,518 | \$ 380,248 | \$ 304,040 | \$ 286,200 | \$ 286,876 | \$ 188,269 |
| Hospital's Estimated Portion of SERS Net Pension Liability | 0.00% | 1.70194% | 1.53184% | 2.05997% | 1.81909% | 1.66686% | 1.40197% | 1.35827% | 1.24930% | 1.13935% |
| Fiduciary Net Position as a Percentage of the Total Pension Liability | 0.00% | 50.59% | 45.76% | 44.55% | 35.84% | 36.79% | 36.61% | 36.25% | 31.69% | 39.23% |
| Hospital's Covered Payroll | \$ - | \$ - | \$ 96,312 | \$ 87,512 | \$ 80,546 | \$ 65,848 | \$ 58,474 | \$ 56,868 | \$ 52,583 | \$ 45,715 |
| Hospital's Estimated Net Pension Liability as a Percentage of Covered Payroll | 0.00% | 0.00% | 350.76% | 500.53% | 535.74% | 577.46% | 519.96% | 503.27% | 545.57% | 411.83% |

This schedule is presented as required by accounting principles generally accepted in the United States of America. See accompanying notes to required schedules

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

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION –
STATE EMPLOYEES’ RETIREMENT SYSTEM ONLY**

| | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-------------------------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | <i>(dollars in thousands)</i> | | | | | | | | | |
| Contractually required contributions | \$ - | \$ - | \$ 55,515 | \$ 43,645 | \$ 36,810 | \$ 29,402 | \$ 26,308 | \$ 20,231 | \$ 20,949 | \$ 18,920 |
| Contributions in relation to the contractually required contribution | <u>\$ -</u> | <u>\$ -</u> | <u>55,515</u> | <u>43,645</u> | <u>36,810</u> | <u>29,402</u> | <u>26,308</u> | <u>20,231</u> | <u>20,949</u> | <u>18,762</u> |
| Contribution deficiency | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 158 |
| The Hospital's covered payroll | \$ - | \$ - | \$ 123,119 | \$ 96,312 | \$ 87,512 | \$ 80,546 | \$ 65,848 | \$ 58,474 | \$ 56,868 | \$ 52,583 |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 45.09% | 45.32% | 42.06% | 36.50% | 39.95% | 34.60% | 36.84% | 35.68% |

This schedule is presented as required by accounting principles generally accepted in the United States of America.
See accompanying notes to required schedules

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

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF JOHN DEMPSEY HOSPITAL'S OPEB CONTRIBUTIONS**

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | <i>(dollars in thousands)</i> | | | | | | | | |
| Net OPEB Liability | | | | | | | | | |
| Service cost | \$ - | \$ 23,126 | \$ 25,169 | \$ 33,096 | \$ 25,896 | \$ 22,421 | \$ 19,867 | \$ 20,288 | \$ - |
| Interest | - | 26,200 | 14,317 | 16,844 | 21,549 | 19,490 | 14,986 | 10,791 | - |
| Differences between expected and actual experience | - | (37,264) | (8,603) | 10,606 | (4,795) | (17,066) | - | - | - |
| Changes of assumptions or other inputs | - | 30,908 | (123,938) | (134,488) | 59,440 | 90,342 | (15,955) | (10,783) | - |
| Benefit payments | - | (23,327) | (17,718) | (17,362) | (16,640) | (15,686) | (14,285) | (13,500) | - |
| Change in proportionate allocation of OPEB liability | (580,579) | 130,516 | 9,153 | (5,330) | (3,499) | 66,836 | 9,224 | 14,409 | - |
| Change in Net OPEB Liability | (580,579) | 150,159 | (101,620) | (96,634) | 81,951 | 166,337 | 13,837 | 21,205 | - |
| Net OPEB Liability - Beginning | 580,579 | 430,420 | 532,040 | 628,674 | 546,723 | 380,386 | 366,549 | 345,344 | - |
| Net OPEB Liability - Ending | \$ - | \$ 580,579 | \$ 430,420 | \$ 532,040 | \$ 628,674 | \$ 546,723 | \$ 380,386 | \$ 366,549 | \$ 345,344 |
| The Hospital's Covered Payroll | - | \$ 193,672 | \$ 156,010 | \$ 145,042 | \$ 137,902 | \$ 129,606 | \$ 127,204 | \$ 125,044 | \$ 123,476 |
| Net OPEB Liability as a Percentage of Covered Payroll | 0.00% | 299.77% | 275.89% | 366.82% | 455.88% | 421.83% | 299.04% | 293.14% | 279.69% |
| The Hospital's proportion of the net OPEB liability | 0.00% | 3.72% | 2.78% | 2.72% | 2.67% | 2.64% | 2.20% | 2.11% | 2.00% |
| The Hospital's proportionate share of the net OPEB liability | \$ - | \$ 580,579 | \$ 430,420 | \$ 532,040 | \$ 628,674 | \$ 546,723 | \$ 380,386 | \$ 366,549 | \$ 345,344 |
| Plan fiduciary net position (assets) | \$ - | \$ 2,667,443 | \$ 2,240,138 | \$ 2,199,545 | \$ 1,537,194 | \$ 1,196,008 | \$ 849,889 | \$ 542,342 | \$ 340,618 |
| Plan fiduciary total OPEB liability | \$ - | \$ 18,266,068 | \$ 17,738,337 | \$ 21,726,989 | \$ 25,078,100 | \$ 21,878,399 | \$ 18,114,287 | \$ 17,904,922 | \$ 17,583,045 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% | 14.60% | 12.63% | 10.12% | 6.13% | 5.47% | 4.69% | 3.03% | 1.94% |

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

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

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF JOHN DEMPSEY HOSPITAL’S OPEB CONTRIBUTIONS**

| | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|-------------------------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | <i>(dollars in thousands)</i> | | | | | | | | | |
| Contractually required contribution | \$ - | \$ - | \$ 31,656 | \$ 23,549 | \$ 23,651 | \$ 23,160 | \$ 19,903 | \$ 17,668 | \$ 14,090 | \$ 12,189 |
| Contributions in relation to the contractually required contribution | <u>-</u> | <u>-</u> | <u>31,656</u> | <u>23,549</u> | <u>23,651</u> | <u>23,160</u> | <u>19,903</u> | <u>17,668</u> | <u>14,090</u> | <u>12,189</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| The Hospital's covered payroll | \$ - | \$ - | \$ 193,672 | \$ 156,010 | \$ 145,042 | \$ 137,902 | \$ 129,606 | \$ 127,204 | \$ 125,044 | \$ 123,476 |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 16.35% | 15.09% | 16.31% | 16.79% | 15.36% | 13.89% | 11.27% | 9.87% |

This schedule is presented as required by accounting principles generally accepted in the United States of America.

See accompanying notes to required schedules

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

REQUIRED SUPPLEMENTARY INFORMATION –

Notes to Required Schedules:

SERS and SEOPEBP

Changes in Legislation

2024 – Present: Public Act 23-204 changed the State's funding structure for employer contributions, effective July 1, 2023. Under this legislation, the State covers all retirement-related costs for the Hospital employees participating in the State's retirement plans. Accordingly, the Hospital ceased making contributions and reporting related covered payroll beginning with the fiscal year ended June 30, 2024. For the fiscal year ended June 30, 2025, the Hospital's proportionate share was reduced to zero for the June 30, 2024 measurement date, reflecting the State's full funding of contributions.

SERS

Changes of Benefit Terms

2018 – The SEBAC 2017 agreement included changes to benefit terms for existing SERS plans by revising certain factors including employee contribution rates and annual cost-of-living adjustments for members retiring after July 1, 2022. The agreement also implemented a new Tier IV Hybrid Plan.

Changes in Assumptions

2022 – Wage inflation assumed rate changed from 3.50% to 3.00%; assumed salary scale changed to reflect experience in wage inflation rates of increase; assumed rates of mortality have been revised to the Pub-2010 above median mortality tables (amount-weighted) projected.

2020 – Reduction in the inflation assumption from 2.75% to 2.50%; decrease in the investment rate of return assumption from 8.0% to 6.9%; increase in the annual rate of wage increase assumption from 0.50% to 0.75%; phase in to a level dollar amortization method for the June 30, 2024 valuation.

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

REQUIRED SUPPLEMENTARY INFORMATION –

Notes to Required Schedules (*continued*):

SEOPEBP

Changes in Assumptions

The discount rate was updated in accordance with GASB 75 to 6.90% for contributory members and 3.65% for non-contributory members for the fiscal year 2024. For the fiscal years 2023, 2022, 2021, 2020, 2019, and 2018, the rates were 3.90%, 2.31%, 2.38%, 3.58%, 3.95%, and 3.68%, respectively.

2024 – Per capita health costs, administrative costs, and retiree contributions were updated for recent experience. Actuarial factors used to estimate individual retiree and spouse costs by age and gender were adjusted. In addition, healthcare cost trend rates and retiree contribution rates were adjusted. The Medicare prescription drug trend rates were also updated to reflect an estimate for the impact of the Inflation Reduction Act. 2021, 2017 – Amounts reported reflect adjustments to rates of withdrawal, disability, retirement, mortality and assumed rates of salary to more closely reflect actual and anticipated experience.

2022 – The demographic assumptions (mortality, disability, retirement, withdrawal and salary scale), were updated to be consistent with the corresponding retirement system assumptions. In addition, per capita health costs, administrative costs, and retiree contributions were updated for recent experience. Healthcare cost trend rates and retiree contribution rates were also adjusted.

2021 – The trends for Medicare-eligible retiree costs were updated to reflect final negotiated changes in Medicare Advantage rates for calendar year 2022.

2020, 2018 – The salary scale and mortality rates for certain retirement plans and eligible groups were updated to be consistent with the corresponding retirement system assumptions. In addition, demographic assumptions, per capita health costs, administrative costs, and contributions were updated to better reflect actual experience. Healthcare cost trend rates and retiree contribution rates were also adjusted.



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