

# **UCONN HEALTH**

Financial Report  
For the Year Ended June 30, 2016

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## Message from the Executive Vice President for Administration and the Chief Financial Officer

Founded in 1881, the University of Connecticut (the “University”) serves as the state’s flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education which includes the University of Connecticut Health Center (“UConn Health”). Although governed by a single Board of Trustees, the University and UConn Health maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. UConn Health also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. The financial statements contained herein represent the transactions and balances of UConn Health only.

The University’s Board of Trustees is vested by law with fiscal oversight of the University. The operational authority granted to the University builds upon the successful implementation of several pieces of legislation known as the Flexibility Acts, enacted in the early 1990’s. These statutory changes enabled the University to become responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The University is now responsible for the budgetary allocation of its State appropriation, check-writing authority, human resource control, and purchasing authority and with the advent of UCONN 2000 in 1995, management of capital activities, including projects for UConn Health starting in 2005.

While the University’s operational flexibility and capacity has grown, all of these activities also take place within a context of continuing vigilance. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. The Board of Trustees, through its Joint Audit and Compliance Committee, exercises oversight of all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University’s internal audit capacity and the work performed by state auditors. An important component of external oversight, the Auditors of Public Accounts issue an Independent Auditors’ Report on the financial statements of UConn Health. They are responsible for auditing its financial operations and their opinion appears in this report.

The University of Connecticut Health Center is an academic medical center composed of the School of Medicine, School of Dental Medicine, John Dempsey Hospital, the UConn Medical Group, University Dentists, the University of Connecticut Finance Corporation and Correctional Managed Healthcare (CMHC). Established in 1961, UConn Health pursues its mission of providing outstanding health care education in an environment of exemplary patient care, research and public service. With approximately 4,900 FTE’s, UConn Health is one of Connecticut’s largest employers and an important contributor to the local and regional economy. UConn Health’s campus in Farmington is situated on 209 acres of wooded hilltop from which the skyline of Hartford, the capital of Connecticut, can be seen about eight miles to the east. (The University’s main campus is in Storrs, about 30 miles east of Hartford.) UConn Health’s campus includes 24 buildings totaling close to 2.8 million square feet.

### **Educational Programs**

Dedicated to providing broad educational opportunities in the biomedical sciences, UConn Health offers degree programs in medicine (M.D.), dental medicine (D.M.D.), and biomedical science (Ph.D.); master’s degree programs in public health and dental science; postdoctoral fellowships; residency programs providing specialty training for newly graduated physicians and dentists; and continuing education programs for practicing health care professionals. Combined degree programs, such as the M.D./Ph.D., D.M.D./Ph.D., Dental Clinical Specialty/Ph.D. and M.D./M.P.H. are also offered.

UConn Health is the only academic health center in the nation where a medical school was founded concurrently with a dental school, a circumstance which led to strong links. Medical and dental students share an essentially common curriculum during the first two years of their four-year degree programs and study the basic medical sciences together. This experience provides UConn’s dental students with an especially strong foundation in the biomedical sciences, reflected in the dental school’s decision to award its graduates the D.M.D. (Doctor of Medical Dentistry).

Each year at UConn Health, approximately 400 students work toward the medical doctor’s degree and 170 toward the doctor of medical dentistry degree. Admission to each school is highly competitive; both schools offer preferential consideration to qualified Connecticut residents in their admissions policies. School of Dental Medicine students have a long history of outstanding performance on the National Boards. In the years since UConn Health graduated its first students in 1972, 2,414 men and women have received the D.M.D. degree; 3,874 the M.D. degree.

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Through a variety of residency programs, the School of Medicine provides postgraduate training for more than 600 newly graduated M.D.s each year. These physicians come from all over the country to acquire advanced skills in fields such as the surgical specialties, internal medicine, and primary care. Some of the residency training occurs on UConn Health's main campus, but much of it takes place in community hospitals in Greater Hartford, thereby extending UConn Health's positive impact on the region.

**Research Programs**

Since UConn Health's inception, high-quality research programs have been part of the institution's fabric. This history has enabled UConn Health to recruit distinguished researchers with expertise in neuroscience, molecular biology, molecular pharmacology, biochemistry, cell physiology, toxicology, and endocrinology, among other fields. The Alcohol Research Center is one of only 27 such federally supported centers in the nation; the Connecticut Clinical Chemosensory Research Center, one of ten. In recent years, UConn Health has also become a leader in stem cell research. Clinical research is facilitated by the Lowell Weicker General Clinical Research Center and the Clinical Trials Unit. Research awards were over \$104.4 million in fiscal 2016.

**Health Care Services**

Through John Dempsey Hospital (234 licensed, 193 staffed beds), UConn Health provides specialized and routine inpatient and outpatient services, including comprehensive cardiovascular, cancer and musculoskeletal services, as well as high risk maternity and neonatal intensive care. John Dempsey Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley and contributes to the region's health in other ways. UConn Medical Group, one of the largest medical practices in Greater Hartford, offers primary care and services in more than 50 specialties.

While the hospital and faculty practice continue to have strong volume, the challenges of the health care marketplace (recruitment, malpractice reserves and low reimbursement) continue to take their toll. John Dempsey Hospital's financial health is also directly affected by its small size, bed distribution, poorly reimbursed services provided as part of its public mission and cost factors resulting from its status as a state entity.

**Connecticut Health**

UConn Health faculty, staff, residents, and students participate in a variety of joint efforts to address public health and community health needs of citizens throughout our state. Under the umbrella of Connecticut Health, hundreds of projects have been developed in collaboration with other state agencies, city and town governments, community-based organizations and the public to serve the poor and uninsured by providing better medical care and health education. UConn Health is committed to finding new and effective ways to reach out to the public as part of UConn Health's ongoing effort to bring a better quality of life to all our citizens.

Respectfully Submitted,



Scott Jordan  
Executive Vice President for Administration &  
Chief Financial Officer  
University of Connecticut



Jeffrey P. Geoghegan  
Chief Financial Officer

University of Connecticut Health Center

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

STATE CAPITOL  
20 TRINITY STREET  
HARTFORD, CONNECTICUT 06106-1559

### INDEPENDENT AUDITORS' REPORT

Board of Directors of the  
University of Connecticut Health Center

#### **Report on Financial Statements**

We have audited the accompanying financial statements of the University of Connecticut Health Center (UConn Health), a component unit of the University of Connecticut system, which includes the University of Connecticut, UConn Health and the University of Connecticut Foundation, Inc. The accompanying financial statements, which consist of the statements of net position as of June 30, 2016 and 2015 and the related statements of revenues, expenses and changes in net position and cash flows and for the years then ended, and the related notes to the financial statements, which collectively comprise UConn Health's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the John Dempsey Hospital, which represented 33 and 12 percent of the assets of UConn Health as of June 30, 2016 and 2015, respectively and 52 and 30 percent of the revenues of UConn Health for the years then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the John Dempsey Hospital, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of UConn Health, as of June 30, 2016 and 2015, and the respective changes in financial 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.

### **Other Matters**

#### *Required Supplementary Information*

The accompanying Management Discussion and Analysis on pages 4 through 10 and the Required Supplemental and Other Information on pages 37 through 42 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Sincerely,



John C. Geragosian  
Auditor of Public Accounts

December 7, 2016  
State Capitol  
Hartford, Connecticut

**MANAGEMENT'S  
DISCUSSION & ANALYSIS**

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## Management's Discussion and Analysis

### INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of the University of Connecticut Health Center ("UConn Health") for the year ended June 30, 2016. 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.

Founded in 1881, the University of Connecticut (the "University") serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education, which includes UConn Health. Although governed by a single Board of Trustees, the University of Connecticut and UConn Health maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. UConn Health also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority.

The financial statements presented here represent the transactions and balances of UConn Health only. UConn Health offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. UConn Health's component parts are the School of Medicine, School of Dental Medicine, UConn Medical Group, the University of Connecticut Finance Corporation, Correctional Managed Healthcare (CMHC), Dental Clinics ("Primary Institution") and John Dempsey Hospital ("the Hospital"). UConn Health's enrollment in fiscal year 2016 was 396 in the School of Medicine, 168 in the School of Dental Medicine, and 328 Graduate students, taught by over 500 faculty members. UConn Health finished fiscal 2016 with 4,932 FTE's. John Dempsey Hospital (JDH) has 193 staffed acute care beds. In fiscal year 2016, adjusted patient days (a measure of total hospital volume) were 104,577, a 2.0% increase from the prior year. During 2016, UConn Medical Group (UMG) had 659,656 unique patient visits, a 5.3% increase.

The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview and analysis of those statements. It is designed to assist readers in understanding the accompanying financial statements required by GASB. This discussion, which is unaudited, includes an analysis of the financial condition and results of activities of UConn Health for the fiscal year ended June 30, 2016, based on currently known facts, decisions, or conditions. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

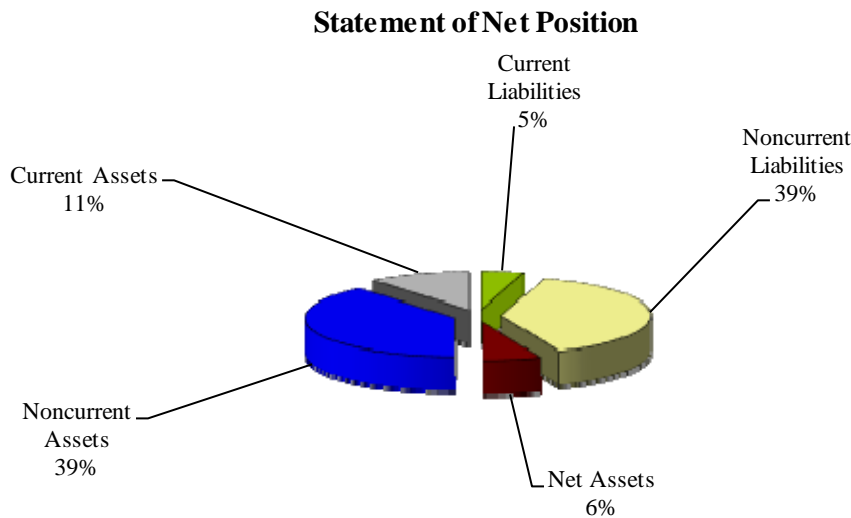


**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of management’s discussion and analysis and the financial statements. The basic financial statements (statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows) present the financial position of UConn Health at June 30, 2016, and the results of operations and financial activities for the year then ended. These statements report information about UConn Health using accounting methods similar to those used by private-sector companies. In addition, a prior year column is presented for comparison purposes. The statements of net position include all of UConn Health’s assets and liabilities. The statements of revenues, expenses and changes in net position reflect the year’s activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not when cash is received or paid. These statements report UConn Health’s net assets and how they have changed. Net assets (the difference between assets and liabilities) are one way to measure financial health or position. The statements of cash flows provides relevant information about each year’s cash receipts and cash payments and classifies them as to operating, investing, noncapital financing and capital and related financing activities. The financial statements include notes that explain information in the financial statements and provide more detailed data.

**FINANCIAL HIGHLIGHTS**

UConn Health’s financial position at June 30, 2016, consisted of assets of \$1.29 billion and liabilities of \$1.27 billion. Net assets, which represent the residual interest in UConn Health’s assets after liabilities are deducted, increased \$149.8 million in fiscal 2016 before capital appropriations and other changes in net position.



The increase in nets assets is attributable to Capital Appropriations which exceeded the net operating losses and nonoperating revenues including State Appropriations. Expenses associated with Capital Appropriations will be borne in the future through increased depreciation expenses.

Changes in net assets represent the operating activity of UConn Health, which results from revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2016, 2015, and 2014 as follows:

	(in millions)		
	2016	2015	2014
Total operating revenues	\$ 743.3	\$ 721.2	\$ 659.2
Total operating expenses	<u>1,053.6</u>	<u>1,007.0</u>	<u>945.3</u>
Operating (loss)	(310.3)	(285.8)	(286.1)
Net nonoperating revenues	<u>285.8</u>	<u>284.1</u>	<u>272.5</u>
<b>(Loss) before Other Changes in Net Position</b>	<b>(24.5)</b>	<b>(1.7)</b>	<b>(13.6)</b>
Net Other Changes in Net Position	<u>174.3</u>	<u>155.9</u>	<u>192.7</u>
Increase in net position	<u>\$ 149.8</u>	<u>\$ 154.2</u>	<u>\$ 179.1</u>

The financial statements contained herein show an operating loss of \$310.3 million for the year ending June 30, 2016 (fiscal year 2016). The measure more indicative of normal and recurring activities is net income before Other Changes in Net Position, which includes revenue from state appropriations. Additions to capital assets are, in a large part, funded by capital appropriations from the state and issuance of UCONN 2000 bond funds (included in the Other Changes in Net Position above), which are not included as revenues in this measurement. However, depreciation expense on those assets is included as an expense in calculating operating income, so a loss under this measurement is expected. UConn Health experienced a loss before Other Changes in Net Position of \$24.5 million in fiscal year 2016.

Some sources of recurring operating and non-operating revenues increased in 2016, including grants and contracts and patient service revenue. These categories are expected to have slight increases in 2017. State support, not including state funded capital appropriations, increased 3.1% in fiscal 2016. The increase was the result of higher In Kind Fringe Benefits on increasing fringe benefit rates charged by the State. Decreases in state support are expected in the upcoming fiscal year due to ongoing efforts by the state to reduce expected budget shortfalls.

## STATEMENTS OF NET POSITION

The summary statements of net position below present the financial position of UConn Health at the end of the fiscal years 2016, 2015 and 2014; it includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of UConn Health. Net position represents assets plus deferred outflows, less liabilities and deferred inflows. Assets represent what is owned by or what is owed to UConn Health. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A deferred outflow of resources represents the consumption of net assets by UConn Health that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net assets by UConn Health that is applicable to a future reporting period.

UConn Health's net position is the residual value in UConn Health's assets and deferred outflows, after liabilities are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. A summary of UConn Health's assets, deferred outflows, liabilities, deferred inflows and net assets at June 30, 2016, 2015, and 2014 is as follows:

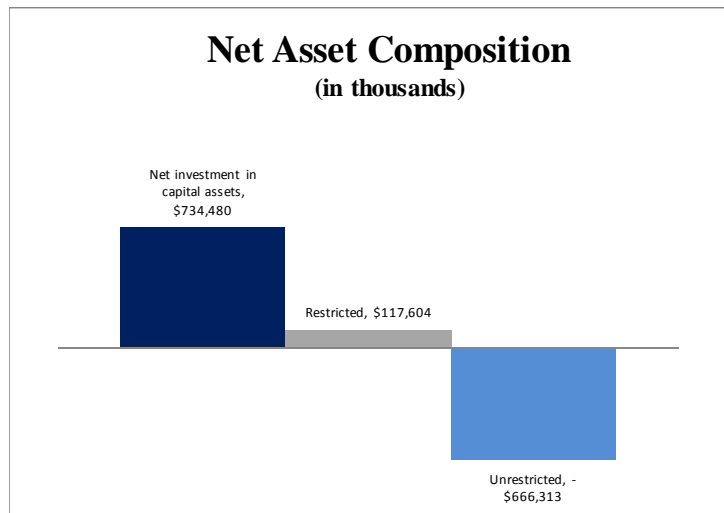
	(in millions)		
	2016	2015	2014
Current assets	\$ 321.8	\$ 310.9	\$ 313.6
Noncurrent assets:			
Capital assets, net	945.2	795.4	573.7
Other	23.9	9.1	7.7
Total assets	<u>1,290.9</u>	<u>1,115.4</u>	<u>895.0</u>
Deferred Outflow of Resources	167.6	130.4	-
Current liabilities	136.1	119.6	106.4
Noncurrent liabilities	<u>1,136.6</u>	<u>1,061.6</u>	<u>211.8</u>
Total liabilities	<u>1,272.7</u>	<u>1,181.2</u>	<u>318.2</u>
Deferred Inflow of Resources	-	28.6	-
Net position	<u>\$ 185.8</u>	<u>\$ 36.0</u>	<u>\$ 576.8</u>

The total assets of UConn Health increased by \$175.5 million, or 15.7%, over the prior year. The increase was primarily attributable to increases in Property, Plant and Equipment, which is the result of continued capital expansion at UConn Health including the completion of the University Tower at John Dempsey Hospital. Deferred outflows of resources, related to the recording of pension liabilities under GASB 68 and 71, increased \$37.2 million.

Total liabilities increased by \$91.5 million or 7.7% from 2015. The driver of the increase was the addition of \$74.4 million in pension liability. The combination of the increase in total assets of \$175.5 and total liabilities of \$91.5 million, offset by the net addition of \$65.8 million in deferred inflows/outflows yielded an increase in total net position of \$149.8.

**Net Assets**

Net assets represent the residual interest in UConn Health’s assets after liabilities are deducted. UConn Health had net assets of \$185.8 million at June 30, 2016.



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

The statements of revenues, expenses and changes in net position present UConn Health's results of operating and nonoperating activities. A summary of UConn Health's revenues, expenses and changes in net assets for the years ended June 30, 2016, 2015, and 2014 is presented below:

	(in millions)		
	2016	2015	2014
Operating revenues			
Patient Services	\$ 532.9	\$ 513.0	\$ 450.3
Grants and Contracts	86.6	82.3	86.3
Other	123.8	125.9	122.6
Total operating revenues	<u>743.3</u>	<u>721.2</u>	<u>659.2</u>
Operating expenses			
Patient services	648.1	607.4	581.6
Instruction	168.3	163.7	152.6
Other	237.2	235.9	211.1
Total operating expenses	<u>1,053.6</u>	<u>1,007.0</u>	<u>945.3</u>
Operating (loss)	(310.3)	(285.8)	(286.1)
Net nonoperating revenues	285.8	284.1	272.5
Other Changes in Net Position	174.3	155.9	192.7
Inc in net assets	<u>\$ 149.8</u>	<u>\$ 154.2</u>	<u>\$ 179.1</u>

Revenue highlights for the year ending June 30, 2016, including operating and nonoperating revenues, presented on the Statements of Revenues, Expenses, and Changes in Net Position are as follows:

- The largest source of revenue was patient service revenue. Net Patient service revenue increased \$19.9 million or 3.9% over prior year. Prior to eliminations the increase in net patient service revenue for John Dempsey Hospital was \$14.6 million. Increases in John Dempsey Hospital reflect higher surgical and outpatient volumes and strategic rate increases throughout the Hospital's lines of service. UConn Medical Group net revenue increased \$5.7 million. UMG's increases reflect changes in patient mix and UMG's focus on contracted rates. The Correctional Managed Health Care program revenue decreased by \$1.4 million compared to prior year. This decrease was attributed to lower operational costs of the program. More detailed information about UConn Health's patient revenue is presented in note 4 of the financial statements.
- The state appropriation (including In Kind Fringe Benefits), which is included in nonoperating revenues, totaled \$289.3 million. This represents a 3.1% increase over the prior year and includes increases in amounts of recognized In Kind Fringe Benefits.

Highlights of expenses including operating and nonoperating expenses presented on the Statements of Revenues, Expenses and Changes in Net Position are as follows:

- Patient service expense is the largest expense category for UConn Health; it accounts for 61.5% of total operating expenses. It increased by \$40.7 million or 6.7% over the prior year. The increase was driven by expenses to support the additional clinical volume in JDH and UMG.
- Institutional Support expenses, which comprise about 9.3% of total expenses, grew to \$98.0 million from \$83.3 million reported in fiscal 2015. The increase was primarily due to increases in salaries and associated fringe benefit expenses including those borne as part of the institution's commitment to research.

## STATEMENTS OF CASH FLOWS

The statements of cash flows below provide additional information about UConn Health's financial results by reporting the major sources and uses of cash. A summary of the statements of cash flows for the years ended June 30, 2016, 2015, and 2014 is as follows:

	(in millions)		
	2016	2015	2014
Cash received from operations	\$ 750.9	\$ 735.8	\$ 631.9
Cash expended for operations	(846.5)	(826.6)	(752.6)
Net cash used in operating activities	(95.6)	(90.8)	(120.7)
Net cash provided by investing activities	0.1	0.2	0.1
Net cash provided by noncapital financing activities	152.3	152.1	146.1
Net cash used in capital and related financing activities	(49.8)	(14.8)	(25.8)
Net increase/(decrease) in cash and cash equivalents	7.0	46.7	(0.3)
Cash and cash equivalents, beginning of the year	93.0	46.3	46.6
Cash and cash equivalents, end of the year	\$ 100.0	\$ 93.0	\$ 46.3

## CAPITAL AND DEBT ACTIVITIES

During fiscal year 2016, UConn Health again participated in the UCONN 2000 program. This is the third phase of the program also known as 21st Century UConn, which provides for improvements to facilities at the University and UConn Health. UConn Health is scheduled to receive \$775.3 million over the life of this program. UConn Health received \$150.0 and \$159.8 million during 2016 and 2015, respectively, from the UCONN 2000 bond issuance which was included in the capital appropriation line in the Statements of Revenues, Expenses, and Changes in Net Position.

At June 30, 2016, UConn Health had property, plant and equipment, net of accumulated depreciation, of \$945.2 million. UConn Health's fiscal 2017 capital requests will be considered for funding by the senior executive committee of UConn Health on an individual basis.

During fiscal year 2013, UConn Health entered into a mortgage agreement with Teachers Insurance and Annuity Association (TIAA) to provide \$203 million for the construction of the Outpatient Pavilion. The project was substantially completed in fiscal 2015 with the remaining work completed and the building 100% occupied by mid-September 2016.

UConn Health continued to meet all existing debt requirements during the year. The Finance Corporation began scheduled payments on the TIAA mortgage in 2015 and continued payments on the UConn Musculoskeletal Institute (formerly the Medical Arts and Research Building). More detailed information about UConn Health's capital assets and debt activities are presented in notes 5 and 7 of the financial statements.

## BIOSCIENCE CONNECTICUT

Progress on the construction work related to the Bioscience Connecticut initiative continued with several projects reaching completion in 2016. The new John Dempsey Hospital University Tower, which also includes the 3rd and final parking garage, opened in May 2016. Work on the final phase of the project is underway and will be complete by late 2016. The remaining work on the 8th floor of the Outpatient Pavilion (formerly named the Ambulatory Care Center) was completed and the building was 100% occupied by mid-September 2016. The Main Building Lab Renovations – Project 1 is complete and Project 2 is underway and on schedule to complete in mid-March, 2017. Construction of the Academic Building addition is complete and the schools are using the new classrooms to advance their curriculum changes. The renovation work associated with the project will continue through May 2017. The Incubator Lab addition to the Cell and Genome Sciences Building was completed in January and the labs are now being leased to companies for technology development. The Clinic Building renovations began construction in July and the work will be continued through early 2018. The first phase of work and renovation to the Main Lobby are scheduled to be complete in early 2017.

## **FISCAL YEAR 2017 OUTLOOK**

As we look forward to fiscal year 2017, UConn Health's appearance and facilities have been transformed by the state's Bioscience Connecticut initiative. Our stunning new Outpatient Pavilion and University Tower position UConn Health to compete aggressively to be the provider of choice not only in the Farmington Valley but throughout Connecticut. Our new advertising campaign, The Power of Possibility, harnesses this optimism.

Research, education, and patient care remain the cornerstones of our mission. Each of these areas contain their own unique challenges. They also share in the uncertainty surrounding both local and national government and funding opportunities. Public Act 16-2 reduced the Fiscal Year 2017 appropriation from \$145.0 million to \$134.6 million. The Fiscal Year 2017 appropriation has since been reduced by \$4.0 million for allocable bottom line savings. This places increasing pressure on UConn Health to work towards self-sufficiency.

The competition for researchers and grants is increasingly active. Even with our collaboration with Jackson Laboratories, attracting top talent, and the funding opportunities that come with them, can be difficult and expensive.

Clinically, we continue to seek ways to increase our patient volumes while adapting to changing population demographics, needs, and treatment demands. Management believes that our new facilities and advertising campaign provide UConn with the resources it needs to compete effectively in the marketplace. In 2016, JDH took the first steps towards creating an Accountable Care Organization (ACO) with Hartford Healthcare. The two entities will be working toward solidifying their relationship over the next year. UConn Health's ACO was forged in an environment of healthcare consolidation occurring both locally and nationally as providers seek to leverage size for both better, more complete care, and cost savings and/or negotiating power.

Healthcare reform and shifting regional and national dynamics continue to bring changes in the way hospitals serve their communities. JDH is not immune to these forces.

UConn Health has begun installation of UConn Health One, an EPIC installation. The installation will result in the installation of the EPIC system at both John Dempsey Hospital and UMG, linking patients via a single electronic health record (EHR) and positions JDH for compliance with the third stage of meaningful use requirements. This endeavor will require a complete reevaluation of our clinical business functions as well as potential operational changes. The installation is scheduled to complete by the end of fiscal 2018.

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

## **CONTACTING UCONN HEALTH'S FINANCIAL MANAGEMENT**

This financial report provides the reader with a general overview of UConn Health'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, University of Connecticut Health Center, Farmington, Connecticut 06030.

# **FINANCIAL STATEMENTS**

**UCONN HEALTH**  
**STATEMENTS OF NET POSITION**  
**As of June 30, 2016 and 2015**

(\$ in thousands)	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 99,565	\$ 92,255
Patient receivables, net	50,591	48,472
Contract and other receivables	33,543	37,221
Construction escrow account	10,313	18,872
Due from Affiliates	88,132	80,294
Due from State of Connecticut	11,002	9,984
Due from Department of Correction	8,406	7,367
Inventories	11,732	9,673
Prepaid expenses	8,504	6,764
Total current assets	<u>321,788</u>	<u>310,902</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	416	735
Other assets	4,472	3,430
Due from State of Connecticut	19,020	4,916
Capital assets, net	945,180	795,439
Total noncurrent assets	<u>969,088</u>	<u>804,520</u>
Total assets	<u>\$ 1,290,876</u>	<u>\$ 1,115,422</u>
Deferred Outflows of Resources	<u>\$ 167,634</u>	<u>\$ 130,449</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 43,595	\$ 41,032
Due to State of Connecticut	7,024	5,774
Accrued salaries	27,244	23,540
Compensated absences	21,746	22,039
Due to third party payors	23,956	16,726
Unearned revenues	1,197	1,330
Malpractice reserve	5,590	3,627
Long-term debt - current portion	5,787	5,498
Total current liabilities	<u>136,139</u>	<u>119,566</u>
<b>Noncurrent Liabilities</b>		
Malpractice reserve	26,002	23,123
Compensated absences	31,292	27,869
Pension Liability	874,393	800,024
Long-term debt	204,913	210,700
Total noncurrent liabilities	<u>1,136,600</u>	<u>1,061,716</u>
Total liabilities	<u>\$ 1,272,739</u>	<u>\$ 1,181,282</u>
Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ 28,617</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 734,480	\$ 579,241
Restricted for		
Nonexpendable		
Scholarships	61	61
Expendable		
Research	(876)	(139)
Loans	953	1,348
Capital projects	117,466	104,082
Unrestricted	(666,313)	(648,621)
Total net position	<u>\$ 185,771</u>	<u>\$ 35,972</u>

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



**UCONN HEALTH**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2016 and 2015**

(\$ in thousands)	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$6,205 and \$5,556, respectively)	\$ 15,728	\$ 16,557
Patient services (net of charity care of \$437 and \$328, respectively)	532,876	512,960
Federal grants and contracts	59,529	57,920
Nonfederal grants and contracts	27,116	24,407
Contract and other operating revenues	108,017	109,324
Total operating revenues	743,266	721,168
<b>OPERATING EXPENSES</b>		
<b>Educational and General</b>		
Instruction	168,299	163,703
Research	58,233	56,961
Patient services	648,071	607,435
Academic support	18,070	22,458
Institutional support	97,954	83,260
Operations and maintenance of plant	21,398	35,363
Depreciation and amortization	41,469	37,830
Student aid	84	32
Total operating expenses	1,053,578	1,007,042
Operating loss	(310,312)	(285,874)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	289,287	280,645
Gifts	6,865	7,175
Investment income (net of investment expense of \$56 and \$85, respectively)	141	176
Interest on capital asset - related debt	(10,487)	(3,820)
Net nonoperating revenues	285,806	284,176
Loss before other changes in net position	(24,506)	(1,698)
<b>OTHER CHANGES IN NET POSITION</b>		
Capital appropriations	175,000	159,810
Loss on Disposal	(695)	(3,902)
Net Other Changes in Net Position	174,305	155,908
Increase in net position	149,799	154,210
<b>NET POSITION</b>		
Net position-beginning of year (as previously stated)	35,972	576,794
Cumulative effect of implementing GASB 68 and 71 (see note 1)	-	(695,032)
Net position-beginning of year as restated	35,972	(118,238)
Net position-end of year	\$ 185,771	\$ 35,972

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

**UCONN HEALTH**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
(\$ in thousands)		
<b>Cash flows from operating activities:</b>		
Cash received from patients and third-party payors	\$ 536,948	\$ 517,120
Cash received from tuition and fees	15,728	16,557
Cash received from grants, contracts and other revenue	198,207	202,139
Cash paid to employees for personal services and fringe benefits	(566,312)	(527,524)
Cash paid for other than personal services	(280,194)	(299,081)
Net cash used in operating activities	(95,623)	(90,789)
<b>Cash flows from investing activities:</b>		
Interest received	141	176
Net cash provided by investing activities	141	176
<b>Cash flows from noncapital financing activities:</b>		
State appropriations	145,391	144,948
Gifts	6,865	7,175
Net cash provided by noncapital financing activities	152,256	152,123
<b>Cash flows from capital and related financing activities:</b>		
Additions to property and equipment	(196,615)	(268,066)
Capital appropriations	154,258	170,984
Interest paid	(10,487)	(3,377)
Net repayment, proceeds from long-term debt	3,061	85,625
Net cash used in capital and related financing activities	(49,783)	(14,834)
Net increase in cash and cash equivalents	6,991	46,676
Cash and cash equivalents at beginning of year	92,990	46,314
Cash and cash equivalents at end of year	\$ 99,981	\$ 92,990

**UCONN HEALTH**  
**STATEMENTS OF CASH FLOWS (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

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Reconciliation of operating loss to net cash used in operating activities:

(\$ in thousands)	<b>2016</b>	<b>2015</b>
<b>Operating loss</b>	\$ (310,312)	\$ (285,874)
<b>Adjustments to reconcile operating loss to net cash</b>		
Used in operating activities:		
Depreciation and amortization	50,036	40,550
Personal services and fringe benefits In Kind from State	142,878	134,680
<b>Changes in assets and liabilities:</b>		
Patients receivables, net	(2,119)	(4,691)
Contract and other receivables	3,679	9,731
Due from DOC	(1,039)	(3,392)
Inventories	(2,059)	290
Third party payors	7,230	12,234
Prepaid expenses	(1,740)	(461)
Other assets	(1,042)	(1,103)
Accounts payable and accrued liabilities	7,091	(1,258)
Due to State of Connecticut	231	(321)
Accrued salaries	3,704	2,043
Compensated absences	3,130	1,142
Deferred revenue	(133)	766
Malpractice reserve	4,842	4,875
<b>Net cash used in operating activities</b>	\$ (95,623)	\$ (90,789)

**Schedule of Non-Cash Financing Transactions**

Mortgage proceeds held by Trustee in construction escrow account	\$ (8,559)	\$ (37,451)
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# **NOTES TO FINANCIAL STATEMENTS**

**UCONN HEALTH**  
**Notes to Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Related Entities**

The University of Connecticut Health Center (“UConn Health”) is a part of a comprehensive institution of higher education, the University of Connecticut (the “University”). Although governed by a single Board of Trustees, UConn Health and the University maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. UConn Health also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. These financial statements represent transactions and balances of UConn Health for the years ended June 30, 2016 and 2015, which includes the School of Medicine, School of Dental Medicine, UConn Medical Group (UMG), University of Connecticut Health Center Finance Corporation, Correctional Managed Healthcare (CMHC), Dental Clinics (the “Primary Institution”) and John Dempsey Hospital (the “Hospital”). UConn Health offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. There is also an affiliated entity that supports the mission of UConn Health: The University of Connecticut Foundation Inc. (the “Foundation”). The Foundation raises funds to promote, encourage, and assist education and research at the University, including UConn Health.

**Basis of Presentation**

UConn Health’s financial statements are prepared using the economic resources measurement focus and in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of accounting principles generally accepted in the United States of America (GAAP). During the year ended June 30, 2016, UConn Health adopted this Statement and it did not have material impact on UConn Health’s financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. During the year ended June 30, 2016, UConn Health adopted this standard and it did not have a material impact on UConn Health’s financial statements based on the composition of UConn Health’s assets and liabilities.

For reporting periods beginning after June 15, 2005, GASB Statement No. 47, *Accounting for Termination Benefits*, was required for universities. This statement requires employers to recognize a liability and expense for voluntary termination benefits when the termination offer is accepted and the amount of the benefits can be estimated. UConn Health records pension liabilities, including those for retired personnel, in accordance with GASB 68 (see note 8).

**Change in Accounting Principle**

During 2015, UConn Health adopted GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 67 pertains to financial reporting by state and local government pension plans, effective for plan years beginning after June 15, 2013. GASB 68 addresses new accounting and financial reporting requirements for governmental employers that provide their employees with pension benefits administered through a qualified trust and is effective for UConn Health beginning July 1, 2014. This statement establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

Under GASB 68, cost-sharing employers not in a special funding situation are required to recognize a liability for their proportionate share of the net pension liability (of all employers for benefits provided through the pension plan) - the collective net pension liability. Consequently, UConn Health must report its proportionate share of the collective pension amounts related to the State Employees’ Retirement System and the Teachers’ Retirement System in its stand-alone

financial statements for the first time. This statement also requires more extensive note disclosure and required supplementary information (RSI) related to pensions.

In addition, UConn Health adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective simultaneously with the provisions of GASB 68. This Statement amends GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

For the implementation of GASB 68, it was not feasible for UConn Health to restate financial statements for the year ended June 30, 2014. As a result, the cumulative effect of applying GASB 68 and 71 is reported as a restatement of beginning net position for the year ended June 30, 2015. The following table presents the impact of this change (amounts in thousands):

	<b>2015</b>
Beginning net position, July 1, 2014	\$ 576,794
Cumulative effect of adoption of GASB 68 & 71	(695,032)
Adjusted beginning net position, July 1, 2014	<u>\$ (118,238)</u>

### **Upcoming Accounting Pronouncements**

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements with periods beginning after June 15, 2016. UConn Health is currently evaluating the impact this standard will have on its financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this statement are effective for financial statements with periods beginning after June 15, 2016. UConn Health is currently evaluating the impact this standard will have on its financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, will require additional disclosures and reporting of UConn Health's proportionate share of the net liabilities related to its participation in the postemployment benefit plans on the statements of net position as well as more extensive note disclosures and required supplementary information about the postemployment liabilities. This Statement is effective for fiscal years beginning June 15, 2017. UConn Health is currently evaluating the impact this standard will have on its financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No.68, and No.73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. The provisions of this statement are effective for financial statements with periods beginning after June 15, 2016. UConn Health is currently evaluating the impact this standard will have on its financial statements.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred inflows and outflows of resources and disclosure of contingent assets and liabilities 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.

### **Proprietary Fund Accounting**

UConn Health utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. All revenues and expenses are subject to accrual.

### **Basis of Presentation**

All significant intra-agency transactions have been eliminated in the presentation of the Consolidated Financial Statements. Additional information about eliminations may be found in the supplemental schedules.

### **Operating and Non-operating revenues:**

UConn Health breaks out revenues between operating and non-operating based on the nature of the transaction as being either an exchange or non-exchange transaction. Exchange transactions principally include services provided by UConn Health to the community. Non-exchange transactions include State Appropriations, Gifts, Loss on disposal of property and equipment, and Investment Returns.

### **Cash and Cash Equivalents:**

UConn Health considers all funds that have not been board or otherwise designated and which are held on its behalf by the State of Connecticut to be cash.

### **Construction Escrow Account:**

Funds related to the financing of the Outpatient Pavilion are placed into the Construction Escrow account upon advancement from the lender. UConn Health does not have immediate access to these funds and must submit receipts and other prescribed documentation in order to apply for reimbursement of construction expenses from the fund.

### **Accounts Receivable and Net Patient Service Revenues**

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

### **Investments and Investment Income**

The State of Connecticut has established various funds to account for the operations of UConn Health. These funds include the University Health Center Operating Fund (Fund 12018), the University Health Center Research Foundation Fund (Fund 12023), the University Health Center Hospital Fund (Fund 21002) and the UConn Health Malpractice Fund (Fund 35015). Grants and contracts for research and related retained overhead recoveries are accounted for in the Research Foundation Fund. The Malpractice Fund accounts for assets set aside in conjunction with actuarial funding recommendations. The Operating Fund acts as a "General Fund" for UConn Health, accounting for all operations not accounted for elsewhere.

Unrestricted Research Foundation Fund and Malpractice Fund assets in excess of immediate cash needs are invested in the State of Connecticut Short-Term Investment Fund (STIF). Most restricted Research Foundation Fund assets are not invested, though there are certain exceptions including gift accounts and funds invested at the request of sponsoring organizations. Local student activity funds controlled by UConn Health are also invested in STIF; these funds are minimal in amount.

The STIF, which was established and is operated under Sections 3-27a through 3-27i of the General Statutes, provides State agencies, funds, political subdivisions and others with a mechanism for investing at a daily-earned rate with interest from day of deposit to day of withdrawal. STIF participants have daily access to their account balances. Underlying investments of the STIF are mainly in money market instruments.

Though Operating Fund participation in STIF is not significant, UConn Health earns interest on Operating Fund cash balances through the State Treasurer's interest credit program. Under this program, the Treasurer pays UConn Health STIF equivalent interest on the average daily cash balance held in the Operating Fund each quarter. Additionally, interest is paid on monies transferred from UConn Health's civil list funds into the direct disbursement account used to process checks issued directly to vendors by UConn Health. Though the balance in this account may include assets of the Operating, Research Fund and Hospital Funds, all interest earned is credited to the Operating Fund. The Hospital Fund does not participate in STIF or, other than described above, the Treasurer's interest credit program.

Investment Income also includes amounts received from endowments.



### **Inventories**

Consumable supplies are expensed when received with the exception of certain central inventories. Cost of the inventory is determined on a moving average basis for the Central Warehouse, and on a first-in, first-out basis for the others. Pharmacy inventory is valued at market which approximates cost due to high turnover rates for institutional pharmaceuticals.

### **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 have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years.

### **Medical Malpractice**

Health care providers and support staff of the UConn Health are fully protected by state statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (“statutory immunity”). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against UConn Health’s malpractice self-insurance fund. Effective July 1, 1999, UConn Health developed a methodology by which it could allocate malpractice costs between the Hospital, UMG, and Dental practices. For the years ended June 30, 2016, and 2015, these costs are included in the statements of revenues, expenses and changes in net position.

### **Compensated Absences**

UConn Health’s employees earn vacation, personal, compensatory and sick time at varying rates depending on their collective bargaining units. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments at varying rates, depending on the employee’s contract. Amounts recorded on the statements of net position are based on historical experience. All other compensated absences are accrued at 100% of their balance. Compensated absences have been allocated between current and noncurrent based on historical information.

### **Pension Liabilities**

In accordance with GASB 68, UConn Health records its proportionate share of the collective net pension liability and collective pension expense for each defined-benefit plan offered to its employees. The collective net pension liability for each plan is measured as the total pension liability, less the amount of the pension plan’s fiduciary net position. The total pension liability is the portion of the actuarial present value of projected benefits 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 have 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. Employer 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.

### **Deferred Outflows of Resources and Deferred Inflows of Resources**

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

### **Regulatory Matters**

The Hospital is required to file semi-annual and annual operating information with the State of Connecticut Office of Health Care Access (“OHCA”), and is required to file annual cost reports with Medicare and Medicaid.

## **Reclassification**

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. None of the affected items were significant.

## **2. CASH DEPOSITS AND INVESTMENTS**

Statement No. 40 of the GASB requires governmental entities to disclose credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks, especially as it relates to uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in UConn Health's name.

UConn Health's cash and cash equivalents, current and noncurrent, balance was \$99,981,455 and \$92,990,295, as of June 30, 2016 and 2015, respectively and included the following:

	<b>2016</b>	<b>2015</b>
Cash maintained by State of Connecticut Treasurer	\$ 55,799,223	\$ 40,716,408
Invested in State of Connecticut Short-Term Investment Fund	44,088,247	51,855,383
Deposits with Financial Institutions and Other	82,645	407,964
Currency (Change Funds)	11,340	10,540
Total cash and cash equivalents	<u>99,981,455</u>	<u>92,990,295</u>
Less: current balance	99,565,228	92,255,595
Total noncurrent balance	<u>\$ 416,227</u>	<u>\$ 734,700</u>

Collateralized deposits are protected by Connecticut statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to at least a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio – a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut were insured by the Federal Deposit Insurance Corporation or collateralized. As a State agency, UConn Health benefits from this protection, though the extent to which the deposits of an individual State agency such as UConn Health are protected cannot be readily determined.

### **Short-Term Investment Fund (STIF)**

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. For financial reporting purposes, STIF is considered to be "cash equivalents" in the statements of net position.

UConn Health's cash management investment policy authorizes UConn Health to invest in the State Treasurer's Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements and savings accounts. The \$44,088,247 invested in the State of Connecticut Investment Pool is invested by the State Treasurer in its Short-term Investment Fund and had a Standard and Poor's rating of AAAM during fiscal year 2016.

Certain funds are held by outside fiscal agents and are not under the direct control of UConn Health. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds was \$2,549,636 and \$2,543,779 as of June 30, 2016 and 2015, respectively. Investment income earned on these assets is transferred to UConn Health in accordance with the applicable trust agreement. Income received from those sources was \$2,489 and \$6,476 for the years ended June 30, 2016 and 2015, respectively.

### 3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During 2016 and 2015, the Hospital provided charity care services of \$436,729 and \$327,517, respectively. The cost basis of these services was \$201,069 and \$159,281, respectively. All related expenses are included in operating expenses.

### 4. NET PATIENT SERVICE REVENUE

UConn Health provides health care services primarily to residents of the region. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. UConn Health believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, 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 UConn Health.

UConn Health has agreements with third-party payers that provide for payments at amounts different from its established rates. These third party payers include Medicare, Medicaid and certain commercial insurance carriers and Health Maintenance Organizations. Additionally, under the Correctional Managed Health Care Program, UConn Health provides medical, dental and psychiatric care to the inmates incarcerated at the State's correctional facilities. This program is funded from the State's General Fund through the Department of Correction.

Patient service revenue for UConn Health is as follows:

	<u>2016</u>	<u>2015</u>
John Dempsey Hospital		
Gross patient services revenue	\$ 842,247,138	\$ 740,812,802
Less allowances	484,302,196	394,107,610
Less bad debts	<u>6,034,067</u>	<u>9,405,021</u>
Net patient service revenue	351,910,875	337,300,171
UConn Medical Group		
Gross patient services revenue	226,304,116	231,482,031
Less allowances	136,712,658	147,039,444
Less bad debts	<u>1,044,987</u>	<u>1,594,572</u>
Net patient service revenue	88,546,471	82,848,015
Correctional Managed Health Care	87,479,411	88,862,714
All other	<u>11,076,562</u>	<u>10,238,995</u>
Total net patient service revenue per business unit	539,013,319	519,249,895
Eliminations	<u>(6,137,731)</u>	<u>(6,289,720)</u>
Total net patient service revenue	\$ <u><u>532,875,588</u></u>	\$ <u><u>512,960,175</u></u>

(Amounts above include internal transactions eliminated on the face of the statements. Additional information is provided in the Supplemental Information at the end of these statements)

## 5. CAPITAL ASSETS

Capital assets at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 13,537,051	\$ 13,537,051
Construction in Progress	256,476,514	384,211,180
Buildings	887,659,395	607,773,561
Equipment	270,365,320	241,382,446
Capital leases	11,591,634	13,776,274
	<u>1,439,629,914</u>	<u>1,260,680,512</u>
Less accumulated depreciation	<u>494,449,569</u>	<u>465,241,626</u>
Capital assets, net	<u>\$ 945,180,345</u>	<u>\$ 795,438,886</u>

UConn Health's fine art collection is capitalized on the statements of net position. This collection is included in equipment in the Primary Institution and totaled \$943,103 and \$958,643 at June 30, 2016 and 2015, respectively. Plant and equipment activity and related information on accumulated depreciation for UConn Health for the years ended June 30, 2016 and 2015 was as follows:

	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>2016</u>
<u>Property and equipment:</u>				
Land	\$ 13,537,051	\$ -	\$ -	\$ 13,537,051
Construction in Progress	384,211,180	178,528,130	(306,262,796)	256,476,514
Buildings and Building Improvements	607,773,561	280,524,998	(639,164)	887,659,395
Equipment	241,382,446	39,114,624	(10,131,750)	270,365,320
Capital leases	13,776,274	-	(2,184,640)	11,591,634
Total property and equipment	<u>1,260,680,512</u>	<u>498,167,752</u>	<u>(319,218,350)</u>	<u>1,439,629,914</u>
<u>Less accumulated depreciation:</u>				
Buildings and Building Improvements	266,458,689	20,975,590	(355,089)	287,079,190
Equipment	185,010,514	20,492,410	(9,720,801)	195,782,123
Capital Leases	13,772,423	473	(2,184,640)	11,588,256
Total accumulated depreciation	<u>465,241,626</u>	<u>41,468,473</u>	<u>(12,260,530)</u>	<u>494,449,569</u>
<u>Net property and equipment:</u>				
Land	13,537,051	-	-	13,537,051
Construction in Progress	384,211,180	178,528,130	(306,262,796)	256,476,514
Buildings and Building Improvements	341,314,872	259,549,408	(284,075)	600,580,205
Equipment	56,371,932	18,622,214	(410,949)	74,583,197
Capital leases	3,851	(473)	-	3,378
Total capital assets, net	<u>\$ 795,438,886</u>	<u>\$ 456,699,279</u>	<u>\$ (306,957,820)</u>	<u>\$ 945,180,345</u>

	<u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>2015</u>
<u>Property and equipment:</u>				
Land	\$ 13,537,051	\$ -	\$ -	\$ 13,537,051
Construction in Progress	317,554,408	254,035,408	(187,378,636)	384,211,180
Buildings and Building Improvements	441,009,227	181,350,817	(14,586,483)	607,773,561
Equipment	244,212,445	15,467,678	(18,297,677)	241,382,446
Capital leases	13,776,274	-	-	13,776,274
Total property and equipment	<u>1,030,089,405</u>	<u>450,853,903</u>	<u>(220,262,796)</u>	<u>1,260,680,512</u>
<u>Less accumulated depreciation:</u>				
Buildings and Building Improvements	260,680,539	16,909,830	(11,131,680)	266,458,689
Equipment	182,049,653	20,811,001	(17,850,140)	185,010,514
Capital leases	13,663,308	109,115	-	13,772,423
Total accumulated depreciation	<u>456,393,500</u>	<u>37,829,946</u>	<u>(28,981,820)</u>	<u>465,241,626</u>
<u>Net property and equipment:</u>				
Land	13,537,051	-	-	13,537,051
Construction in Progress	317,554,408	254,035,408	(187,378,636)	384,211,180
Buildings and Building Improvements	180,328,688	164,440,987	(3,454,803)	341,314,872
Equipment	62,162,792	(5,343,323)	(447,537)	56,371,932
Capital leases	112,966	(109,115)	-	3,851
Total capital assets, net	<u>\$ 573,695,905</u>	<u>\$ 413,023,957</u>	<u>\$ (191,280,976)</u>	<u>\$ 795,438,886</u>

Construction in progress at June 30, 2016 and 2015, represents accumulated costs for various UConn Health construction projects. UConn Health has entered into various contractual arrangements related to these projects. Upon completion, the cost of the project is transferred to the appropriate investment in property and equipment category and depreciation will commence.

## 6. ENDOWMENTS

UConn Health designated the Foundation as manager of UConn Health's endowment funds. The Foundation makes spending allocation distributions to UConn Health for each participating endowment. The distribution is spent by UConn Health in accordance with the respective purposes of the endowments and with the policies and procedures of UConn Health. Additional information is presented in note 12.

## 7. LONG-TERM LIABILITIES

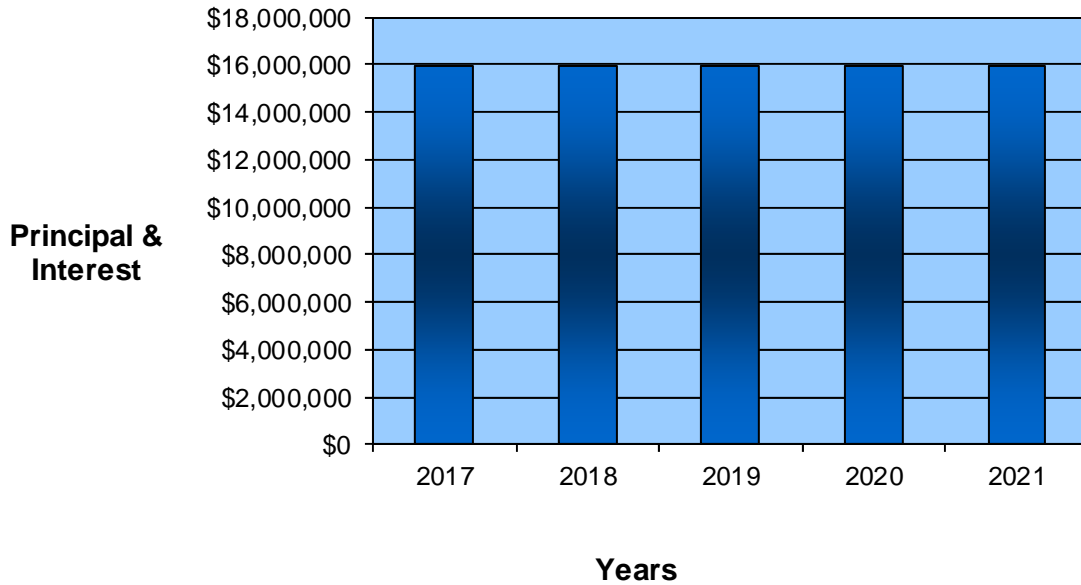
Long-term liability activity for the years ended June 30, 2016 and 2015 was as follows:

	June 30, 2015			June 30, 2016	Amounts due
	Balance	Additions	Reductions	Balance	within 1 year
<b>Long-Term debt:</b>					
Mortgage Agreements Primary Institution	216,198,070	-	5,497,829	210,700,241	5,786,546
Total Long-Term Debt	216,198,070	-	5,497,829	210,700,241	5,786,546
<b>Malpractice reserve</b>	26,750,000	9,210,184	4,368,184	31,592,000	5,590,000
<b>Compensated absences</b>	49,907,490	38,296,575	35,166,238	53,037,827	21,745,509
<b>Total Long - Term Liabilities</b>	<u>\$ 292,855,560</u>	<u>47,506,759</u>	<u>45,032,251</u>	<u>295,330,068</u>	<u>\$ 33,122,055</u>

	June 30, 2014			June 30, 2015	Amounts due
	Balance	Additions	Reductions	Balance	within 1 year
<b>Long-Term debt:</b>					
Mortgage Agreements Primary Institution	168,024,254	50,303,427	2,129,611	216,198,070	5,497,829
Total Long-Term Debt	168,024,254	50,303,427	2,129,611	216,198,070	5,497,829
<b>Malpractice reserve</b>	21,875,000	9,884,237	5,009,237	26,750,000	3,627,000
<b>Compensated absences</b>	48,765,638	35,768,444	34,626,592	49,907,490	22,039,148
<b>Total Long - Term Liabilities</b>	<u>\$ 238,664,892</u>	<u>95,956,108</u>	<u>41,765,440</u>	<u>292,855,560</u>	<u>\$ 31,163,977</u>

Estimated cash basis interest and principal requirements for the long-term debt (including the full amounts payable for the Outpatient Pavilion) for the next five years and thereafter are as follows:

### Long-Term Debt Requirement



<b>Year</b>	<b>Long-Term Debt</b>
2017	15,985,039
2018	15,985,039
2019	15,985,039
2020	15,985,039
2021	15,985,039
Thereafter	268,835,279
<b>Totals</b>	<b>\$ 348,760,474</b>

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 based on actuarially determined estimates that incorporate UConn Health’s past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. The scope of UConn Health’s assessment for establishing budgets for malpractice costs encompasses physicians, dentists, and all other UConn Health health care providers, and support staff.

UConn Health is involved in litigation claiming a substantial amount of damages arising in the ordinary course of business. Specifically, claims alleging malpractice have been asserted against UConn Health and are currently in various stages of litigation. Costs associated with these known claims, including settlements, as well as any new claims arising during the course of business will be paid from the malpractice fund.

Pursuant to Public Act No. 09-3, to the extent that claims for cases exceed current year premiums budgeted by UConn Health, UConn Health may petition the State to make up any difference. However, operational subsidies from the State and/or UConn Health may be affected by the performance of UConn Health’s malpractice program. At June 30, 2016, UConn Health Malpractice Fund had actuarial reserves of approximately \$31.6 million and assets of approximately \$9.7 million.

## 8. RETIREMENT PLAN AND OTHER POST EMPLOYMENT BENEFITS

UConn Health implemented GASB 68 for the fiscal year ended June 30, 2015. Under GASB 68, governmental employers whose employees participate in pension plans covered under GASB 67, and who prepare accrual based financial statements are required to report their share of the pension liabilities and related deferred outflows and deferred inflows of resources in their stand-alone financial statements. UConn Health did not restate the accompanying financial statements for the year ended June 30, 2014; therefore, pension liabilities and related deferred outflows or deferred inflows were not reflected based on prior pension accounting standards. Alternatively, the cumulative effective of implementing GASB 68 was recorded as an adjustment to beginning net position for the year ended June 30, 2015 (see note 1).

### **State Employees' Retirement System (SERS)**

*Pension plan.* 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. SERS is administered by the State Comptroller's Retirement Division under the direction of the State Employees Retirement Commission. SERS consists of five plans: Tier I, Tier II, Tier IIA, Tier III, and the Hybrid Plan. In accordance with GASB 68, UConn Health must report for its participation in SERS as if it were a cost-sharing employer plan.

*Benefits provided.* SERS was established by the Connecticut General Assembly for the purpose of providing retirement, disability, and death benefits along with annual cost-of-living adjustments (COLAs) to plan members and their beneficiaries. Generally, the monthly pension benefit is calculated in accordance with a basic formula, which takes into consideration average salary, credited service, and age at retirement. Further details on plan benefits, COLAs, and other plan provisions are described in Sections 5-152 to 5-192 of the State General Statutes. SERS does not issue a stand-alone financial report but is reported as a fiduciary fund within the State's Comprehensive Annual Financial Report (CAFR). Financial reports are available on the website of the Office of the State Comptroller at <http://www.osc.ct.gov/reports/>.

*Contributions.* The contribution requirements are established and may be amended by the State legislature subject to the contractual rights established by collective bargaining. Tier I Plan B regular and Hazardous Duty members are required to contribute 2.0% and 4.0% of their annual salary, respectively, up to the Social Security Taxable Wage Base plus 5.0% above that level; Tier I Plan C members are required to contribute 5.0% of their annual salary; Tier II Plan Hazardous Duty members are required to contribute 4.0% of their annual salary; Tier IIA and Tier III Plans regular and Hazardous Duty members are required to contribute 2.0% and 5.0% of their annual salary, respectively. Individuals hired on or after July 1, 2011, otherwise eligible for ARP are eligible to become members of the Hybrid Plan in addition to their other existing choices. The Hybrid Plan has defined benefits identical to Tier II/IIA and Tier III for individuals hired on or after July 1, 2011, but requires employee contributions 3.0% higher than the contribution required from the applicable Tier II/IIA plan.

UConn Health makes contributions on behalf of the employees, through a fringe benefit charge assessed by the State. These amounts are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. UConn Health's contributions for regular and hazardous duty members were \$81.0 and \$72.5 million for fiscal years 2016 and 2015, respectively.

*Proportionate share of collective Net Pension Liability (NPL).* At June 30, 2016 and 2015, UConn Health reported liabilities of \$873.4 and \$799.1 million for its proportionate shares of the SERS collective NPL. The collective NPL was measured as of June 30, 2015, and the total pension liability (TPL) used to calculate the collective NPL was determined by an actuarial valuation as of June 30, 2014. UConn Health's proportion of the collective NPL was based on UConn Health's share of contributions relative to total contributions made to SERS. UConn Health's share of contributions for the year ended June 30, 2016 and 2015 were 5.29% and 4.99%, respectively.

*Actuarial assumptions.* TPL for SERS was determined based on the annual actuarial funding valuation report prepared as of June 30, 2014 and was based on the results of an actuarial experience study for the period July 1, 2007 – June 30, 2011. The key actuarial assumptions are summarized below:

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Inflation	2.75 %
Salary increases	4.00% – 20.00%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

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Mortality rates were based on the RP-2000 Mortality Table for Annuitants and Non-Annuitants projected with the scale AA, 15 years for men (set back 2 years) and 25 years for women (set back 1 year) for the period after service retirement and for dependent beneficiaries. For the period after disability retirement, 55% (men) and 80% (women) of the RP-2000 Disabled Mortality Table was used. The projection of the RP-2000 mortality rates with age setbacks as described provides an approximate 13% margin in the assumed rates of mortality.

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the June 30, 2015 measurement date are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equities	21.0%	5.8%
Developed Non-U.S. Equities	18.0%	6.6%
Emerging Market (Non-U.S.)	9.0%	8.3%
Real Estate	7.0%	5.1%
Private Equity	11.0%	7.6%
Alternative Investments	8.0%	4.1%
Fixed Income (Core)	8.0%	1.3%
High Yield Bonds	5.0%	3.9%
Emerging Market Bond	4.0%	3.7%
TIPS	5.0%	1.0%
Cash	4.0%	0.4%
Total	100.0%	

*Discount rate.* The discount rate used to measure the TPL at June 30, 2015 was the long-term rate of return of 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected through the year 2115.

Based on those assumptions, SERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL and a municipal bond rate was not used in determining the discount rate.

*Sensitivity of UConn Health's proportionate share of the collective NPL to changes in the discount rate.* The following table presents UConn Health's proportionate share of the collective NPL calculated using the discount rate of 8.0%, as well as what UConn Health's proportionate share of the collective NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate (amounts in thousands):

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
UConn Health's proportionate share of the collective NPL – (SERS)	\$ 1,038,876	\$ 873,351	\$ 733,898

*Pension plan fiduciary net position.* Detailed information about the fiduciary net position of the SERS pension plan is available in the State's CAFR for the fiscal year ended June 30, 2015.

**Connecticut Teachers’ Retirement System (TRS)**

*Pension 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 UConn Health, 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.* TRS provides retirement, disability, and death benefits, and 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 three years of paid salaries. Further information on TRS plan benefits, COLAs, and other plan provisions are described in Sections 10-183b to 10-183ss of the State General Statutes. TRS does not issue a stand-alone financial report but is reported as a fiduciary fund within the State’s CAFR, which is available on the website of the Office of the State Comptroller (<http://www.osc.ct.gov/reports/>).

*Contributions.* The contribution requirements are established and may be amended by the State legislature. Plan members are required to contribute 6.0% of their annual salary. According to Section 10-183z of the State General Statutes a special funding situation requires the State to contribute 100.0% of employer’s contributions on behalf of its municipalities at an actuarially determined rate. However, a special funding situation does not apply to UConn Health because it is an agency of the State and there is not a separate non-employer contributing entity. Therefore, like SERS, UConn Health makes contributions on behalf of these employees, through a fringe benefit charge assessed by the State. UConn Health’s TRS contributions for the years ended June 30, 2016 and 2015, were \$236,943 and \$201,212, respectively.

*Proportionate share of collective NPL.* At June 30, 2016 and 2015, UConn Health reported liabilities of \$1,042,000 and \$962,000 for its proportionate share of the collective NPL. The collective NPL was measured as of June 30, 2015, and the TPL used to calculate the collective NPL was determined by an actuarial valuation as of June 30, 2014. UConn Health’s proportion of the collective NPL was based on the UConn Health’s share of contributions relative to total contributions made to TRS. Based on this calculation, UConn Health’s proportion share was 0.01% for the years ended June 30, 2015 and 2014.

*Actuarial assumptions.* TPL as of June 30, 2014 was determined based on the annual actuarial funding valuation report prepared as of June 30, 2014 and was based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010. The key actuarial assumptions are summarized below:

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Inflation	3.00%
Salary increases	3.75% – 7.00%, including inflation
Investment rate of return	8.50 %, net of pension plan investment expense, including inflation

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Mortality rates were based on the RP-2000 Combined Mortality Table projected 19 years using scale AA, with a two year setback for males and females for the period after service retirement and for dependent beneficiaries. The Scale AA projection to 2019 of the RP-2000 mortality rates with two-year setbacks is estimated to provide a sufficient margin in the assumed rates of mortality to allow for additional improvement in mortality experience. The post-retirement mortality rates are multiplied by 75% for death in active service. The post retirement mortality rates are set forward ten years for the period after disability retirement.

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the June 30, 2015 measurement date are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Mutual Equity	25.0%	7.3%
Developed Markets ISF	20.0%	7.5%
Emerging Markets ISF	9.0%	8.6%
Core Fixed Income	13.0%	1.7%
Emerging Market Debt	4.0%	4.8%
High Yield	2.0%	3.7%
Inflation Linked Bonds	6.0%	1.3%
Liquidity Fund	6.0%	0.7%
Real Estate	5.0%	5.9%
Private Investment	10.0%	10.9%
<b>Total</b>	<b>100.0%</b>	

*Discount rate.* The discount rate used to measure the TPL was 8.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined rates in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of UConn Health's proportionate share of the collective NPL to changes in the discount rate.* The following presents UConn Health's proportionate share of the collective NPL calculated using the discount rate of 8.5%, as well as what the UConn Health's proportionate share of the collective NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (7.5%) or 1-percentage-point higher (9.5%) than the current rate (amounts in thousands):

	<b>1% Decrease (7.5%)</b>	<b>Current Discount Rate (8.5%)</b>	<b>1% Increase (9.5%)</b>
UConn Health's proportionate share of the collective NPL – (TRS)	\$ 1,314	\$ 1,042	\$ 811

*Pension plan fiduciary net position.* Detailed information about the fiduciary net position of the TRS pension plan is available in the State's CAFR for the fiscal year ended June 30, 2015.

### **Alternate Retirement Plan**

*Defined Contribution Plan.* UConn Health also sponsors the Alternate Retirement Plan (ARP), a defined contribution plan administered through a third-party administrator, Voya Retirement Insurance and Annuity Company. Beginning July 1, 2015, administration of ARP has changed to Prudential Financial, Inc. The Connecticut State Employees Retirement Commission has the authority to supervise and control the operation of the plan including the authority to make and amend rules and regulations relating to the administration of the plan.

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 ARP. Participants must contribute 5% of eligible compensation each pay period while the State will contribute an amount equal to 8% of the participant's eligible compensation. Participant and State contributions are both 100% vested immediately. For fiscal years 2016 and 2015, State contributions on behalf of UConn Health to ARP were approximately \$26.4 and \$25.4 million, respectively.

Upon separation from service, retirement, death or divorce (including alternate payee under a Qualified Domestic Relations Order), if you are age 55 or over and have more than 5 years of plan participation, a participant or designated beneficiary

can withdraw a partial or lump cash payment, rollover to another eligible retirement plan or IRA, or receive installment payments or annuity payments. Other ARP provisions are described in Title 5 – State Employees, Chapter 66 – State Employees Retirement Act of the Connecticut General Statutes.

#### **Other Post-Employment Benefits other than Pension**

In addition to the pension benefits, the State provides post-retirement health care and life insurance benefits to UConn Health employees in accordance with State Statutes Sections 5-257(d) and 5-259(a). When employees retire, the State may pay up to 100% of their health care insurance premium cost (including dependents' coverage) based on the plan chosen by the employee. In addition, the State pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined by a formula based on the number of years of State service that the retiree had at the time of retirement. Currently, the State is responsible and finances the cost of post-retirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund; therefore, no liability is recorded in UConn Health's financial statements. However, implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, will require additional disclosures and reporting of the UConn Health's proportionate share of the net liability related to its participation in the postemployment benefit plans on the Statements of Net Position as well as more extensive note disclosures and required supplementary information about the postemployment liabilities. This Statement is effective for fiscal years beginning after June 15, 2017.

### **9. RESIDENCY TRAINING PROGRAM**

UConn Health's School of Medicine Residency Training Program provides area hospitals with the services of interns and residents. Participating hospitals remit payments to UConn Health, in accordance with an established rate schedule, for services provided. UConn Health, in turn, funds the Capital Area Health Consortium, Inc., which coordinates the payment of payroll and the provision of related fringe benefits to the interns and residents, under a contractual arrangement. Amounts remitted or owed by participating hospitals for payments made to interns and residents, and amounts paid or due under contract to the Capital Area Health Consortium, Inc., are reflected in the accompanying financial statements as current unrestricted revenues and expenditures, respectively.

UConn Health's School of Dental Medicine also operates its Residency Training Program through the Consortium. Dental Residents work in local dental clinics honing their skills while providing services to traditionally underserved populations.

### **10. BOND FINANCED ALLOTMENTS**

UConn Health recognizes an asset when an allotment is processed for State general obligation bonds or when bonds are funded from UConn Health resources or issued under the UCONN 2000 program are sold.

In fiscal year 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (Act), also known as Phase III. This Act amended Public Act No. 95-230 and extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The 21st Century UConn program was amended in fiscal year 2008, extending it an additional year to June 30, 2016, without any change in the total amount. In fiscal year 2010, the Act was amended again including a \$25 million reallocation from existing UCONN 2000 UConn Health allocations, and a \$207 million increase in UCONN 2000 debt service commitment authorizations for the UConn Health Network. This also extended the UCONN 2000 program two additional years to fiscal year 2018. In fiscal year 2011, the General Assembly enacted and the Governor signed Public Act No. 11-75, An Act Concerning the University of Connecticut Health Center, which increased the authorized project costs for UConn Health under Phase III. The Act, as amended, authorized additional projects for UConn Health at an estimated cost of \$775.3 million. The Act also requires UConn Health to contribute not less than \$69 million through operations, eligible gifts, or other sources towards new UConn Health construction.

In fiscal 2016, the University recorded total revenue of \$300 million as State debt service commitment for principal for the 2016 Series A bonds which included \$150 million to finance projects for UConn Health. In fiscal year 2015, UConn Health recorded \$159.8 million related to bond issuances. UConn Health reports revenues from these bonds as Capital Appropriations. As noted above, Phase III includes a commitment to fund projects totaling \$775.3 million for UConn Health. These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of

debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any of the other revenues for the payment of the bonds. The University therefore acts as custodian of the funds for UConn Health. A corresponding receivable, Due from Affiliates, is recorded for the unspent portion of the bonds, \$88,132,449 and \$80,293,929 at June 30, 2016 and 2015, respectively, in the Statements of Net Position.

In the June 2015 Special Session, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act 15-01 (June Spec. Sess.), *An Act Authorizing and Adjusting Bonds of the State for Capital Improvements, Transportation, and Other Purposes*. This Public Act empowered the State Bond Commission to authorize the issuance of bonds of the State for specific purposes enumerated in the Act. Section 2(d)(5) of the Act authorized \$25 million of the proceeds of the bond sales to be allocated in fiscal year 2016 for the purchase and implementation of an integrated electronic medical records system at The University of Connecticut Health Center (“UConn Health’s EMR”), and Section 21(c)(4) of the Act authorized \$16 million of the proceeds of the bond sales to be allocated in fiscal year 2017 for UConn Health’s EMR. The bill also introduced language effective July 1, 2015, that allows the University to revise, delete or add particular projects to finance implementation of UConn Health’s EMR, thus giving the University the flexibility to reallocate existing UCONN 2000 authorizations to the project in future years. As of June 30, 2016, the University has not made such an election. On January 29, 2016, pursuant to Public Act 15-1 (June Spec. Sess.), the State Bond Commission allocated funds to support the fiscal year 2016 installment of \$25 million for UConn Health’s EMR. UConn Health’s unspent portion of State Bond Issuances, \$14,379,141, is included in Due from State of Connecticut on its Statement of Net Position.

## 11. COMMITMENTS

On June 30, 2016, UConn Health had individual outstanding commitments exceeding \$300,000 in amount, totaling \$12,517,095. A portion of this amount was included in the June 30, 2016 accounts payable. Commitments above do not include any commitments arising from the administration of UCONN 2000 funds by the University on UConn Health’s behalf. Such obligations would be paid directly from proceeds of current and future bond issuances.

UConn Health agreed to pay \$54,839,893 during the 2016-2017 fiscal year to the Capitol Area Health Consortium to cover the payment of payroll, related fringe benefits, and certain program expenses for interns and residents participating in the School of Medicine and Dental Medicine Residency Training Programs. These costs are to be funded by participating hospitals, which will remit payments to UConn Health, in accordance with an established rate schedule, for services provided. Dental Residency costs will be funded by the School of Dental Medicine.

UConn Health leases various building space under operating lease commitments, which expire at various dates through fiscal year 2027. Expenses related to these leases were \$5,719,771 and \$5,548,630 for the years ended June 30, 2016 and 2015, respectively. Future minimum rental payments at June 30, 2016 under non-cancelable operating leases are approximately as follows:

<u>Year</u>	<u>Payments</u>
2017	4,388,299
2018	3,978,970
2019	3,995,101
2020	3,435,657
2021	2,836,558
Thereafter	<u>10,719,748</u>
Total	<u>\$ 29,354,333</u>

## 12. RELATED PARTY TRANSACTIONS

The University of Connecticut Foundation, Inc. (the “Foundation”) is a tax-exempt organization whose objective is the betterment of the University, including UConn Health. The Foundation is a consolidated part of the University and

therefore an affiliated party. As is the case with the University's Storrs based program, UConn Health has entered into a written agreement with the Foundation whereby UConn Health agrees to reimburse the Foundation for certain administrative services and the Foundation agreed to reimburse UConn Health for certain services performed and for operating expenses of the Foundation. The following transactions occurred between UConn Health and the Foundation during the year ended June 30, 2016:

Amount paid to the Foundation	\$	<u>16,037</u>
Amount received from the Foundation		
for personnel services and operating expenses	\$	<u>6,838,107</u>
Amount received from the Foundation		
from endowments and gifts	\$	<u>1,826,665</u>

In addition, UConn Health engages in transactions with the University. Listed below are the material transactions with the University. Not included in this list are certain cost share arrangements for shared services and transactions related to UCONN 2000 for which notation has been made in note 10.

Funds Paid to the University of Connecticut	\$	<u>12,843,891</u>
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UConn Health is a component unit of the State of Connecticut. Through UConn Health, the State seeks to meet certain unmet needs in the community including the training and development of new doctors and dentists. The State supports UConn Health's mission primarily via two mechanisms: State Appropriations and the provision of In Kind benefits. State Appropriations represent amounts the State allows UConn Health to charge back directly to the State's General Fund. In Kind benefits take the form of forgone fringe benefit expense reimbursements related to salaries expensed on the General Fund. For the year ended June 30, 2016, the amounts of these benefits recognized were as follows:

Amount of General Fund Appropriations from State of Connecticut	\$	<u>145,390,659</u>
In Kind Fringe Benefits:		
Recognized through CMHC		53,342,732
Received elsewhere in Primary Institution		<u>90,553,214</u>
Total In Kind Fringe Benefits received from State of Connecticut:	\$	<u>143,895,946</u>
Total Appropriations and In Kind Fringe Benefits received from State of Connecticut	\$	<u>289,286,605</u>

UConn Health contracted with Berkeley Research Group (BRG) in October of 2013 to assist in efficiency and cost analysis aimed at reducing expenses in UConn Health clinical operations. The BRG team was led by Dr. Andrew Agwunobi. The contract was based on BRG's assistance meeting certain savings benchmarks verified by both UConn Health and BRG personnel. In December of 2014, the contract was amended to provide Dr. Agwunobi's services as Interim Executive Vice President for Health Affairs. The original term of this contract was three months. The contract was then extended for an additional 9 months. During this time, no new contracts were entered into with BRG. In December of 2015, Dr. Agwunobi

was hired by the President of UConn as the permanent Executive Vice President for Health Affairs. During the fiscal year ended June 30, 2016, UConn Health purchased \$633,563 of services from Berkeley Research Group, including \$375,000 for services provided by Dr. Agwunobi. Of the remainder, only \$36,750 were for services purchased after Dr. Agwunobi's interim appointment, none of which were affected directly by Dr. Agwunobi, and the remainder relate to contracts agreed upon before December 2014.

### 13. CONTINGENCIES

UConn Health is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material effect on UConn Health's financial statements.

### 14. HYPOTHECATION

Individual components of UConn Health are allowed to borrow from the State on the basis of their net patient receivables and contract and other receivables to fund operations. These units include John Dempsey Hospital and the UConn Medical Group. John Dempsey Hospital is allowed to borrow from the State at up to 90% of its receivables. UConn Medical Group is allowed to borrow at up to 70% of its accounts receivable. As of June 30, 2016 and 2015, the Hospital and UMG had the following draws and availability under the State statute:

	2016		2015	
	John Dempsey Hospital	UConn Medical Group	John Dempsey Hospital	UConn Medical Group
<b>Amount Drawn under Hypothecation</b>	\$ -	2,876,175	\$ -	-
<b>Remaining amounts available under Hypothecation</b>	\$ 44,000,096	4,492,603	\$ 41,682,976	6,959,560

### 15. OPERATING EXPENSES BY OBJECT

The table below details UConn Health's operating expenses by object for the years ended June 30, 2016 and 2015.

#### Operating Expenses by object for the Years Ended June 30:

	2016	2015
Salaries and wages	\$ 452,363,252	\$ 430,987,568
Fringe benefits	264,910,727	239,287,699
Supplies and other expenses	282,218,036	286,170,289
Utilities	12,617,035	12,766,229
Depreciation and amortization	41,468,473	37,829,946
<b>Total</b>	<b>\$ 1,053,577,523</b>	<b>\$ 1,007,041,731</b>

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**



**UCONN HEALTH**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2016**

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**State Employees' Retirement System (SERS)**

UConn Health's schedule of its proportionate share of the collective net pension liability (NPL) as of June 30 is shown below (amounts in thousands):

<b>Year Ended June 30</b>	<b>UConn Health's proportion of the collective NPL</b>	<b>UConn Health's proportionate share of the collective NPL</b>	<b>Covered-employee payroll</b>	<b>UConn Health's proportionate share of the collective NPL as a % of covered-employee payroll</b>	<b>Plan fiduciary net position as a % of the total liability</b>
2016	5.29%	\$ 873,351	\$ 200,050	436.57%	39.23%

UConn Health's schedule of employer contributions as of June 30 is the following (amounts in thousands):

<b>Year Ended June 30</b>	<b>Contractually required contribution</b>	<b>Contributions in relation to the contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered-employee payroll</b>	<b>Contributions as a % of covered-employee payroll</b>
2016	\$ 72,560	\$ 72,560	\$ -	\$ 200,050	36.27%

**Changes of benefit terms:**

For the June 30, 2014 valuation, there were two changes in benefit terms:

- a. The 2011 SEBAC Agreement changed the benefit multiplier for the portion of benefit below the breakpoint from 1.33% to 1.40%. This change was made effective for all active members who retire on or after July 1, 2013 in Tier II, IIA and III.
- b. A one-time decision was granted to members not eligible to retire by July 1, 2022 to elect to maintain the same normal retirement eligibility applicable to members eligible to retire before July 1, 2022. Employees who elected by July 1, 2013 to maintain the eligibility are required to make additional employee contributions for the length of their remaining active service with SERS. The additional contribution was up to 0.72% of pensionable earnings.

**Method and assumptions used in calculations of actuarially determined contributions.**

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule:

Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay, closed
Single equivalent amortization period	19 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increase	4.00-20.00%, including inflation
Investment rate of return	8.00%, net of investment related expense

**Teachers' Retirement System (TRS)**

UConn Health's schedule of its proportionate share of the collective NPL as of June 30 is shown below (amounts in thousands):

<b>Year Ended June 30</b>	<b>UConn Health's proportion of the collective NPL</b>	<b>UConn Health's proportionate share of the collective NPL</b>	<b>Covered- employee payroll</b>	<b>UConn Health's proportionate share of the collective NPL as a % of covered- employee payroll</b>	<b>Plan fiduciary net position as a % of the total liability</b>
2016	0.009%	\$ 1,042	\$ 237	439.66%	59.50%

UConn Health's schedule of employer contributions as of June 30 is the following (amounts in thousands):

<b>Year Ended June 30</b>	<b>Contractually required contribution</b>	<b>Contributions in relation to the contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered- employee payroll</b>	<b>Contributions as a % of covered- employee payroll</b>
2016	\$ 93	\$ 171	\$ 78	\$ 237	72.15%

**Changes in assumptions:**

In 2011, rates of withdrawal, retirement and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2010.

**Method and assumptions used in calculations of actuarially determined contributions:**

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Single equivalent amortization period	22.4 years
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increase	3.75-7.00%, including inflation
Investment rate of return	8.50%, net of investment related expense

**UCONN HEALTH**  
**CONSOLIDATING STATEMENT OF NET POSITION**  
**As of June 30, 2016**

(\$ in thousands)	2016			
	Primary Institution	John Dempsey Hospital	Eliminations	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 63,618	\$ 35,947	\$ -	\$ 99,565
Patient receivables, net	10,542	40,049	-	50,591
Contract and other receivables	24,703	8,840	-	33,543
Construction escrow account	10,313	-	-	10,313
Due from Affiliates	88,132	-	-	88,132
Due from State of Connecticut	11,002	-	-	11,002
Due from Primary Institution	-	14,478	(14,478)	-
Due from Department of Correction	8,406	-	-	8,406
Inventories	2,779	8,953	-	11,732
Prepaid expenses	2,591	5,913	-	8,504
Total current assets	<u>222,086</u>	<u>114,180</u>	<u>(14,478)</u>	<u>321,788</u>
<b>Noncurrent Assets</b>				
Restricted cash and cash equivalents	416	-	-	416
Other assets	3,668	804	-	4,472
Due from State of Connecticut	19,020	-	-	19,020
Capital assets, net	613,327	331,853	-	945,180
Total noncurrent assets	<u>636,431</u>	<u>332,657</u>	<u>-</u>	<u>969,088</u>
Total assets	<u>\$ 858,517</u>	<u>\$ 446,837</u>	<u>\$ (14,478)</u>	<u>\$ 1,290,876</u>
Deferred Outflows of Resources	<u>\$ 117,254</u>	<u>\$ 50,380</u>	<u>\$ -</u>	<u>\$ 167,634</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	\$ 31,203	\$ 12,392	\$ -	\$ 43,595
Due to State of Connecticut	3,043	3,981	-	7,024
Accrued salaries	20,562	6,682	-	27,244
Compensated absences	15,326	6,420	-	21,746
Due to John Dempsey Hospital	14,478	-	(14,478)	-
Due to third party payors	-	23,956	-	23,956
Unearned revenues	1,172	25	-	1,197
Malpractice reserve	5,590	-	-	5,590
Long-term debt - current portion	5,787	-	-	5,787
Total current liabilities	<u>97,161</u>	<u>53,456</u>	<u>(14,478)</u>	<u>136,139</u>
<b>Noncurrent Liabilities</b>				
Malpractice reserve	26,002	-	-	26,002
Compensated absences	22,053	9,239	-	31,292
Pension Liability	686,036	188,357	-	874,393
Long-term debt	204,913	-	-	204,913
Total noncurrent liabilities	<u>939,004</u>	<u>197,596</u>	<u>-</u>	<u>1,136,600</u>
Total liabilities	<u>\$ 1,036,165</u>	<u>\$ 251,052</u>	<u>\$ (14,478)</u>	<u>\$ 1,272,739</u>
Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 402,627	\$ 331,853	\$ -	\$ 734,480
Restricted for				
Nonexpendable				
Scholarships	61	-	-	61
Expendable				
Research	(876)	-	-	(876)
Loans	953	-	-	953
Capital projects	117,466	-	-	117,466
Unrestricted	(580,625)	(85,688)	-	(666,313)
Total net position	<u>\$ (60,394)</u>	<u>\$ 246,165</u>	<u>\$ -</u>	<u>\$ 185,771</u>

**UCONN HEALTH**  
**CONSOLIDATING STATEMENT OF NET POSITION**  
**As of June 30, 2015**

(\$ in thousands)	2015			
	Primary Institution	John Dempsey Hospital	Eliminations	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 67,950	\$ 24,305	\$ -	\$ 92,255
Patient receivables, net	10,175	38,297	-	48,472
Contract and other receivables	29,203	8,018	-	37,221
Construction escrow account	18,872	-	-	18,872
Due from Affiliates	80,294	-	-	80,294
Due from State of Connecticut	9,984	-	-	9,984
Due from Primary Institution	-	14,485	(14,485)	-
Due from Department of Correction	7,367	-	-	7,367
Inventories	2,226	7,447	-	9,673
Prepaid expenses	1,318	5,446	-	6,764
Total current assets	<u>227,389</u>	<u>97,998</u>	<u>(14,485)</u>	<u>310,902</u>
<b>Noncurrent Assets</b>				
Restricted cash and cash equivalents	735	-	-	735
Other assets	2,664	766	-	3,430
Due from State of Connecticut	4,916	-	-	4,916
Capital assets, net	<u>744,947</u>	<u>50,492</u>	<u>-</u>	<u>795,439</u>
Total noncurrent assets	<u>753,262</u>	<u>51,258</u>	<u>-</u>	<u>804,520</u>
Total assets	<u>\$ 980,651</u>	<u>\$ 149,256</u>	<u>\$ (14,485)</u>	<u>\$ 1,115,422</u>
Deferred outflow of resources	<u>\$ 114,410</u>	<u>\$ 16,039</u>	<u>\$ -</u>	<u>\$ 130,449</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	\$ 30,651	\$ 10,381	\$ -	\$ 41,032
Due to State of Connecticut	2,718	3,056	-	5,774
Accrued salaries	18,114	5,426	-	23,540
Compensated absences	15,139	6,900	-	22,039
Due to John Dempsey Hospital	14,485	-	(14,485)	-
Due to third party payors	-	16,726	-	16,726
Unearned revenues	1,330	-	-	1,330
Malpractice reserve	3,627	-	-	3,627
Long-term debt - current portion	5,498	-	-	5,498
Total current liabilities	<u>91,562</u>	<u>42,489</u>	<u>(14,485)</u>	<u>119,566</u>
<b>Noncurrent Liabilities</b>				
Malpractice reserve	23,123	-	-	23,123
Compensated absences	19,142	8,727	-	27,869
Pension Liability	651,649	148,375	-	800,024
Long-term debt	210,700	-	-	210,700
Total noncurrent liabilities	<u>904,614</u>	<u>157,102</u>	<u>-</u>	<u>1,061,716</u>
Total liabilities	<u>\$ 996,176</u>	<u>\$ 199,591</u>	<u>\$ (14,485)</u>	<u>\$ 1,181,282</u>
Deferred inflows of resources	<u>\$ 23,314</u>	<u>\$ 5,303</u>	<u>\$ -</u>	<u>\$ 28,617</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 528,749	\$ 50,492	\$ -	\$ 579,241
Restricted for				
Nonexpendable				
Scholarships	61	-	-	61
Expendable				
Research	(139)	-	-	(139)
Loans	1,348	-	-	1,348
Capital projects	104,082	-	-	104,082
Unrestricted	<u>(558,530)</u>	<u>(90,091)</u>	<u>-</u>	<u>(648,621)</u>
Total net position	<u>\$ 75,571</u>	<u>\$ (39,599)</u>	<u>\$ -</u>	<u>\$ 35,972</u>

**UCONN HEALTH**  
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Year Ended June 30, 2016**

(\$ in thousands)	<b>2016</b>				
	Primary Institution	John Dempsey Hospital	Total (Memo Only)	Eliminations	Consolidated
<b>OPERATING REVENUES</b>					
Student tuition and fees, net	\$ 15,728	\$ -	\$ 15,728	\$ -	\$ 15,728
Patient services, net	187,103	351,911	539,014	(6,138)	532,876
Federal grants and contracts	59,529	-	59,529	-	59,529
Nonfederal grants and contracts	27,116	-	27,116	-	27,116
Contract and other operating revenues	130,178	26,160	156,338	(48,321)	108,017
Total operating revenues	<u>419,654</u>	<u>378,071</u>	<u>797,725</u>	<u>(54,459)</u>	<u>743,266</u>
<b>OPERATING EXPENSES</b>					
Educational and General					
Instruction	190,613	-	190,613	(22,314)	168,299
Research	58,233	-	58,233	-	58,233
Patient services	315,298	364,918	680,216	(32,145)	648,071
Academic support	18,070	-	18,070	-	18,070
Institutional support	97,954	-	97,954	-	97,954
Operations and maintenance of plant	21,398	-	21,398	-	21,398
Depreciation and amortization	32,558	8,911	41,469	-	41,469
Student aid	84	-	84	-	84
Total operating expenses	<u>734,208</u>	<u>373,829</u>	<u>1,108,037</u>	<u>(54,459)</u>	<u>1,053,578</u>
Operating loss	<u>(314,554)</u>	<u>4,242</u>	<u>(310,312)</u>	<u>-</u>	<u>(310,312)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State appropriations	289,287	-	289,287	-	289,287
Gifts	6,315	550	6,865	-	6,865
Hospital transfer	(281,325)	281,325	-	-	-
Investment income, net	141	-	141	-	141
Interest on capital asset - related debt	(10,487)	-	(10,487)	-	(10,487)
Net nonoperating revenues	<u>3,931</u>	<u>281,875</u>	<u>285,806</u>	<u>-</u>	<u>285,806</u>
Loss before other changes in net position	<u>(310,623)</u>	<u>286,117</u>	<u>(24,506)</u>	<u>-</u>	<u>(24,506)</u>
<b>OTHER CHANGES IN NET POSITION</b>					
Capital appropriations	175,000	-	175,000	-	175,000
Loss on Disposal	(342)	(353)	(695)	-	(695)
Net Other Changes in Net Position	<u>174,658</u>	<u>(353)</u>	<u>174,305</u>	<u>-</u>	<u>174,305</u>
Increase in net position	<u>(135,965)</u>	<u>285,764</u>	<u>149,799</u>	<u>-</u>	<u>149,799</u>
<b>NET POSITION</b>					
Net position-beginning of year	75,571	(39,599)	35,972	-	35,972
Net position-end of year	<u>\$ (60,394)</u>	<u>\$ 246,165</u>	<u>\$ 185,771</u>	<u>\$ -</u>	<u>\$ 185,771</u>

**UCONN HEALTH**  
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Year Ended June 30, 2015**

(\$ in thousands)	<b>2015</b>				
	Primary Institution	John Dempsey Hospital	Total (Memo Only)	Eliminations	Consolidated
<b>OPERATING REVENUES</b>					
Student tuition and fees, net	\$ 16,557	\$ -	\$ 16,557	\$ -	\$ 16,557
Patient services, net	181,950	337,300	519,250	(6,290)	512,960
Federal grants and contracts	57,920	-	57,920	-	57,920
Nonfederal grants and contracts	24,407	-	24,407	-	24,407
Contract and other operating revenues	124,589	22,995	147,584	(38,260)	109,324
Total operating revenues	<u>405,423</u>	<u>360,295</u>	<u>765,718</u>	<u>(44,550)</u>	<u>721,168</u>
<b>OPERATING EXPENSES</b>					
<b>Educational and General</b>					
Instruction	184,598	-	184,598	(20,895)	163,703
Research	56,961	-	56,961	-	56,961
Patient services	298,190	332,900	631,090	(23,655)	607,435
Academic support	22,458	-	22,458	-	22,458
Institutional support	83,260	-	83,260	-	83,260
Operations and maintenance of plant	35,363	-	35,363	-	35,363
Depreciation and amortization	29,951	7,879	37,830	-	37,830
Student aid	32	-	32	-	32
Total operating expenses	<u>710,813</u>	<u>340,779</u>	<u>1,051,592</u>	<u>(44,550)</u>	<u>1,007,042</u>
Operating loss	<u>(305,390)</u>	<u>19,516</u>	<u>(285,874)</u>	<u>-</u>	<u>(285,874)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State appropriations	280,645	-	280,645	-	280,645
Gifts	6,625	550	7,175	-	7,175
Hospital transfer	(8,001)	8,001	-	-	-
Investment income, net	176	-	176	-	176
Interest on capital asset - related debt	(3,820)	-	(3,820)	-	(3,820)
Net nonoperating revenues	<u>275,625</u>	<u>8,551</u>	<u>284,176</u>	<u>-</u>	<u>284,176</u>
Loss before other changes in net position	<u>(29,765)</u>	<u>28,067</u>	<u>(1,698)</u>	<u>-</u>	<u>(1,698)</u>
<b>OTHER CHANGES IN NET POSITION</b>					
Capital appropriations	159,810	-	159,810	-	159,810
Loss on Disposal	(3,552)	(350)	(3,902)	-	(3,902)
Net Other Changes in Net Position	<u>156,258</u>	<u>(350)</u>	<u>155,908</u>	<u>-</u>	<u>155,908</u>
Increase in net position	<u>126,493</u>	<u>27,717</u>	<u>154,210</u>	<u>-</u>	<u>154,210</u>
<b>NET POSITION</b>					
Net position-beginning of year (as previously stated)	505,439	71,355	576,794	-	576,794
Cumulative effect of implementing GASB 68 and 71 (see note 1)	<u>(556,361)</u>	<u>(138,671)</u>	<u>(695,032)</u>	<u>-</u>	<u>(695,032)</u>
Net position-beginning of year as restated	<u>(50,922)</u>	<u>(67,316)</u>	<u>(118,238)</u>	<u>-</u>	<u>(118,238)</u>
Net position-end of year	<u>\$ 75,571</u>	<u>\$ (39,599)</u>	<u>\$ 35,972</u>	<u>\$ -</u>	<u>\$ 35,972</u>

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**DIRECTORS AND FINANCIAL OFFICERS**  
**June 30, 2016**

**BOARD OF DIRECTORS**

**Members at Large**

Francis X. Archambault, Jr.	<i>Storrs</i>
Richard M. Barry	<i>Avon</i>
Francisco L. Borges	<i>Farmington</i>
Cheryl A. Chase	<i>Hartford</i>
John F. Droney	<i>W. Hartford</i>
Timothy A. Holt	<i>Glastonbury</i>
Wayne Rawlins	<i>Cromwell</i>
Charles W. Shivery	<i>Avon</i>

**Appointed by the Governor**

Kathleen D. Woods	<i>Avon</i>
Teresa M. Ressel	<i>New Canaan</i>
Joel Freedman	<i>S. Glastonbury</i>

**Members Ex Officio**

Susan Herbst	<i>Storrs</i>
Robert S. Dakers	<i>Glastonbury</i>

**Appointed by Chairperson, Board of Trustees**

Sanford Cloud Jr, Chairperson	<i>Farmington</i>
Andy F. Bessette	<i>W. Hartford</i>
Richard T. Carbray, Jr.	<i>Rocky Hill</i>

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**FINANCIAL OFFICERS**

Scott A. Jordan, Executive Vice President for Administration and Chief Financial Officer  
Jeffrey P. Geoghegan, Chief Financial Officer  
Chad A. Bianchi, Controller

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**TRUSTEES**  
**As of June 30, 2016**

**BOARD OF TRUSTEES**

***MEMBERS EX OFFICIO***

The Honorable Dannel P. Malloy  
Governor of the State of Connecticut  
*President ex officio*                      *Hartford*

The Honorable Steven K. Reviczky  
Commissioner of Agriculture  
*Member ex officio*                      *Hartford*

The Honorable Catherine H. Smith  
Commissioner of Economic  
and Community Development  
*Member ex officio*                      *Hartford*

The Honorable Dianna R. Wentzell  
Commissioner of Education  
*Member ex officio*                      *Hartford*

Sanford Cloud, Jr.  
Chair, UConn Health Board of Directors  
*Member ex officio*                      *Farmington*

***ELECTED BY THE ALUMNI***

Donny E. Marshall                      *Coventry*  
Richard T. Carbray, Jr.                *Rocky Hill*

***APPOINTED BY THE GOVERNOR***

Lawrence D. McHugh, *Chairman*                      *Middletown*  
Louise M. Bailey, *Secretary*                      *West Hartford*  
Andy F. Bessette                      *West Hartford*  
Charles F. Bunnell                      *East Haddam*  
Shari G. Cantor                      *West Hartford*  
Andrea Dennis-LaVigne                      *Simsbury*  
Marilda L. Gandara                      *Hartford*  
Thomas E. Kruger                      *Stamford*  
Rebecca Lobo                      *Granby*  
Denis J. Nayden                      *Stamford*  
Thomas D. Ritter                      *Hartford*

***ELECTED BY THE STUDENTS***

Jeremy L. Jelliffe                      *Willimantic*  
Michael K. Daniels                      *Plainville*



**UConn**  
**HEALTH**